Austria Sch 18	Indonesia Rp 2500	Portugal Esc 80
Bahrain Din 0.650	Italy L1300	S. Arabia Rls 6.00
Belgium Bfr 38	Japan Y250	Singapore S$4.10
Canada C$2.00	Jordan Fils 500	Spain Pta 110
Cyprus C£0.60	Kuwait Fils 500	Sri Lanka Rup 30
Denmark Dkr 7.25	Lebanon £L 8.00	Sweden Skr 6.50
Egypt E£1.00	Luxembourg Lfr 38	Switzerland SFr 2.20
Finland Fmk 6.70	Malaysia Rm 4.25	Taiwan NT$65
France Fr 6.00	Mexico Pes 300	Tunisia Din 0.600
Germany DM 2.20	Morocco Dh 6.00	Turkey L 210
Greece Dr 70	Netherlands Fl 2.50	U.A.E. Dh 6.50
Hong Kong HK$ 12	Norway Nkr 8.00	U.S.A. $1.50
India Rup 15	Philippines Pes 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,535 — Monday January 28 1985 — D 8523 B

Helmut Schmidt's cultural leadership, Page 15

World news

Sinowatz apology for Nazi's welcome

Austrian Chancellor Fred Sinowatz apologised to the World Jewish Congress after a furore over the reception of Nazi war criminal Walter Reder. Defence Minister Friedhelm Frischenschlager met Reder when he arrived after a surprise release from jail in Italy.

The welcome has badly dented Austria's image and rocked its Socialist-right-wing coalition. The incident happened on the eve of the Congress's first meeting in Austria and as ceremonies marked the liberation 40 years ago of the Auschwitz concentration camp.

The Chancellor is faced with the choice of sacking his Defence Minister or riding out the storm with potentially damaging consequences for his Government. Page 2

Cyprus talks

Turkish Cypriot leader Rauf Denktash ruled out new talks to settle the Cyprus problem until after elections he plans in June. Page 2

Gulf attack

Iraq said its war jets hit two "naval targets", the term applied to oil tankers or merchant vessels, in the Gulf south of Iran's main oil terminal at Kharg Island.

Minister to quit

Lebanon's political and economic crisis deepened when the Cabinet session called to discuss measures to halt the decline in the value of local currency was called off because Dr Selim Hoss, Minister of Education and Labour, gave notice of his intention to quit. Page 2

16 die in shelling

Sixteen people were killed by Pakistani shelling of the Afghan border town of Barikot.

Corsica blast

Four bombs exploded on the French Mediterranean island of Corsica, causing extensive damage to buildings in several parts of the island.

Sikh extremists held

Indian security forces arrested more than 30 armed Sikh extremists in the northern border state of Jammu and Kashmir.

Jets grounded

Sweden has grounded most of its fighter jets because it suspects a recent crash may have been caused by sabotage.

Newsmen expelled

Turkish newspapers said Bulgaria expelled three journalists trying to investigate allegations that the Turkish minority there is repressed.

UK journalist dies

Veteran British journalist and broadcaster James Cameron died at his London home. Obituary, Page 2

French fears

French police fear fresh terrorist attacks against senior military officers after the killing of the head of arms sales in the Ministry of Defence. Page 2

Four year talks

Arms control talks between the U.S. and the Soviet Union, scheduled to begin in Geneva on March 12, could take longer than the four year term of President Reagan's second administration. Page 2

Indictment trimmed

A New York Grand Jury trimmed its indictment of Mr Bernhard Goetz, the "subway vigilante," from a potential charge of attempted murder to one of illegally carrying a gun. Page 2

Pope condemns

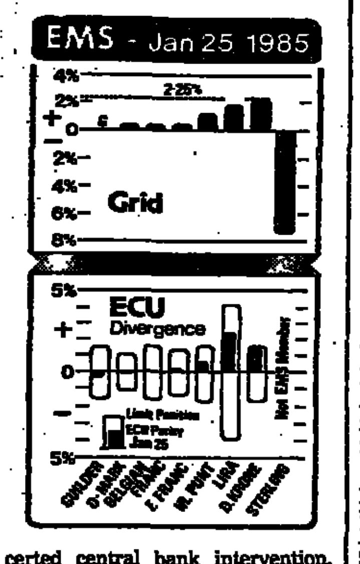
Pope John Paul urged hundreds of thousands of Venezuelans attending an open air mass in Caracas to work for the unity of families as he condemned divorce, abortion, artificial birth control and euthanasia.

Business summary

UK poised to block Norwegian gas deal

THE BRITISH GOVERNMENT is expected this week to tell Norway that it will not approve British Gas's proposed $30bn deal to purchase gas from the Norwegian Sleipner field. The supply in the 1990s would represent one-fifth of Britain's needs. Page 16

ATTENTION in the EMS focused on the performance of the dollar last week and how it reacted to concerted central bank intervention. The U.S. unit fell below its recent trading range and although this allowed the D-Mark to improve from the previous week, the West German currency failed to make any impression on its EMS partners. It finished the week further down against its Ecu central rate and touched its worst level for a year against the French franc. The Belgian franc continued to improve, boosted by a steady decline in domestic inflation and success in reducing current account and budget deficits.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO stocks declined for the fifth consecutive day during Saturday's half day session. The Nikkei Dow market average shed 48.57 to 11,736.53. Page 26

CHINA is to go ahead with plans to bring in managers and engineers from abroad to help shake up some of its ailing industries. Page 3

HONG KONG interest rates are to be trimmed today following a decision by the Association of Banks, the informal rate-fixing cartel, to cut the prime lending rate by half a percentage point to 10 per cent. Page 2

IRAN has halted virtually all imports because of a sharp fall in its oil exports and low foreign exchange reserves.

SUBSCRIPTIONS to Argentina's new loan from commercial bank creditors have topped $4bn, close to the $4.2bn required. Page 2

TEXAS INSTRUMENTS, the world's biggest supplier of semiconductors reported a 17 per cent decline in fourth quarter net income to $64.6m, due primarily to weaker international currencies which offset a 17 per cent growth in net sales to $1.5bn in the same period. Page 21

KELLOGG, the world's biggest producer of breakfast cereals, reported a 3 per cent rise in net 1984 income to $250m. Page 20

SHELL OIL, which is majority owned by Royal Dutch Shell, lifted net income 5.8 per cent to $581m during the fourth quarter. Page 21

DUNLOP'S small shareholders are to be offered a bigger stake in the £142m ($157m) rescue package for the debt-laden UK tyre and rubber products group. Page 7

We apologise for any typographical errors in today's edition arising from industrial action by members of the National Graphical Association in the proofreading room in London.

Opec committee fails to agree on pricing system

BY DOMINIC LAWSON IN GENEVA

A SPECIAL Organisation of the Petroleum Exporting Countries (OPEC) committee failed last night to reach agreement on a more rational Opec pricing system.

The price differentials committee, compromising the oil ministers of Saudi Arabia, Algeria, Nigeria, Kuwait, the United Arab Emirates, Libya und Qatar, was meeting ahead of today's Opec Conference aimed at ending the 13-nation organisation's pricing chaos.

Opec's immediate problem is that the official prices of its light crudes are higher than the market will bear, while the official prices of the heavy crudes are seen as extremely attractive by refiners. The light oil producers have thus been able to sell their oil only by heavy discounting.

While Opec producers seem generally agreed that the current $4 a barrel differential between Arabian Heavy and the light crudes of some African members should be narrowed to no more than $2.50, Opec is divided about how to achieve this.

The light oil producers want the problem solved by an increase in the $26.50 official price of Arabian Heavy to anything up to $28. But Saudi Arabia and Kuwait, Opec's two leading producers of heavier oil are adamant that there should be no increase. They feel the problem should be met chiefly by cuts in the price of light crudes, if necessary including Arabian Light, the Opec marker crude, which has an official price of $29 per barrel.

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, will face close questioning in parliament today about the Conservative Government's attitude to the *continued weakness of sterling* in the wake of the pound's fall to another record low on Friday. Page 16

Yesterday's meeting saw no sign of compromise by either faction. One disgruntled Oil Minister said: "We are no nearer a solution. It will soon be a question not of price differentials but of the future of Opec itself." One observer at the talks claimed, however, that "substantial progress" had been made.

A proposal that was widely discussed in the meeting was the replacement of Arabian Light as the Opec marker crude by Arabian Heavy. This would have the political advantage that if the price of Arabian light was eventually to be cut then Opec could do so without altering the entire price structure.

An earlier meeting over the weekend of the Light producer-dominated market monitoring committee, which examines production levels and quotas, underlined this conflict within Opec. Its chairman, Dr Mana Said Otaiba, the United Arab Emirates Oil Minister, said that the committee had decided that there should be no change in *the $29 price of Arabian Light.*

Dr Otaiba said that Opec's production was running at less than 15m barrels of oil per day (b/d), compared with the official ceiling of 16m b/d. He said that the 16m b/d ceiling would remain in force. Dr Otaiba added that demand for Opec oil was currently at 19m b/d.

Although these figures were received with scepticism by some oil industry experts in Geneva, Sheikh Ali Khalifa al-Sabah, the Kuwaiti Oil Minister, later insisted that the stock drawdown was indeed running at more than 4m b/d.

One important factor outside Opec's control is Britain, which has yet do decide on its official oil prices for the first quarter. Opec ministers fear that any agreement they may reach in Geneva could be jeopardised if the UK follows Norway and sets spot market related prices.

This could well result in further price cuts by Nigeria, an Opec member.

Sleipner gas deal, Page 16; Jacobs opposes Phillips, Page 16; Shell Oil results, Page 21

Lagos cancels metro contract

By Michael Holman and Peter Blackburn in Lagos

NIGERIA has cancelled the Lagos overhead metro project after the French consortium which won the 700m naira ($687m) contract failed to renegotiate the terms.

The metro system on which N80m has already been spent, would have carried hundreds of thousands of Lagos commuters on a 16-mile route from the city centre to Agege on the mainland, with trains travelling on a 15-metre-high raised track.

The project was controversial from the start, with critics arguing that there were cheaper alternatives, such as extra buses and more bridges and flyovers to ease the transport problems in the city of 5m people.

The metro may also have been seen as low on the list of national priorities at a time of increasing austerity. One of the first actions of the military government which took power a year ago was to review all projects costing more than N30m.

In the 1985 budget earlier this month, Major-General Muhammadu Buhari, the head of state, said that no external borrowing for new projects would be undertaken in 1985 unless seen as vital to Nigeria's national interest.

The metro contract was awarded in September 1982 to a group of 19 French companies led by Compagnie Internationale pour le Développement des Infrastructures (Interinfra), which is 51 per cent owned by Compagnie Générale d'Electricité and 49 per cent by the Empain Schneider group. The company was *yesterday unavailable for comment* on the cancellation.

Engineering works were to be managed by Sofretu, civil works by Société Générale d'Entreprises, track laying and overhead power lines by Spie-Batignolles, rolling stock by Alsthom-Atlantique, signalling and telecommunications by CSEE, and electric power and equipment for the 19 stations along the route by CGEE-Alsthom.

Some 80 per cent of the contract was to have been financed offshore including a N200m buyer credit arranged by Société Générale and Banque pour Le Commerce Extérieur, covered by the French export credit agency, Coface, and guaranteed by the Nigerian Federal Government.

During the renegotiation talks which took place between May and December last year the Lagos state government is believed to have demanded a substantial reduction in contract costs, including modification of the escalation clause in the contract.

UK coal board sets out terms for peace talks

BY JOHN LLOYD AND JOHN HUNT IN LONDON

OPPOSING VIEWS over the treatment of miners who have been dismissed by Britain's state-run National Coal Board (NCB) during their union's 11-month strike may present a fundamental obstacle to agreement in the forthcoming talks to end the dispute.

Mr Ian MacGregor, the NCB chairman, has given firm assurances to miners who have worked despite the strike by the National Union of Mineworkers (NUM) that the more than 500 miners who have been dismissed for various offences would be reinstated "over my dead body."

Britain's Conservative Government has also stressed that a general amnesty, especially for those convicted of violent actions, would undermine any final settlement.

Mr Arthur Scargill, the NUM's left-wing president, has given just as firm assurances to the dismissed miners – most of them are enthusiastic supporters of Mr Scargill – that they will get their jobs back.

This is only one of a number of issues which will make negotiations to end the dispute exceptionally tough.

Crucial talks-about-talks get underway tomorrow and the coal board will be taking a hard line with the union over the central stumbling block of pit closures.

Mr Michael Eaton, the Coal Board's chief spokesman, was adamant yesterday that the strike could not end until the NUM had signed an agreement publicly acknowledging that pits could be shut down on economic grounds. Tomorrow's discussions will aim to draw up an agenda for peace talks. Mr Eaton insisted this would have to include "a meaningful discussion about uneconomic pits."

The Conservative Government was still maintaining yesterday that there must be a written undertaking from the NUM that it is prepared to discuss the closure of uneconomic pits.

Nevertheless, it seems to have modified its position since last week when Mrs Margaret Thatcher, the Prime Minister, was accused of presenting an ultimatum to the union in an attempt to humiliate Mr Scargill.

● In the substantive talks – assuming the preliminary negotiations will succed in drawing up an agreed agenda which will provide the "written assurances" the board has demanded – "we require that an agreement is made which recognises that uneconomic pits can close. The NUM has a policy that no pit should close on grounds of economics and we want that changed."

He said that at the end of the new review process already agreed with the pit deputies' union Nacods – in which an independent element has been admitted – "we must have the authority, we must have the agreement of the NUM that pits can and will close (on economic grounds) as they have in the past."

Continued on Page 16

EEC to tackle spending and expansion problems

BY QUENTIN PEEL IN BRUSSELS

EEC FOREIGN Ministers will today begin the process of disentangling three fundamental problems for the long-term development of the European Community – the future membership of Spain and Portugal, how to finance the inexorable increase in Community spending, and how to compensate the poorest Mediterranean regions.

All three problems are interrelated, and none is in sight of early solution. But the continuing plight of EEC finances should help to concentrate the minds of the ministers on the need to make urgent process, particularly on enlargement.

The first meeting of the EEC Foreign Affairs Council of 1985 will attempt to pick the pieces left over from the Dublin summit last December. There, the 10 heads of government managed to agree a common position for the negotiations with Spain and Portugal, including the crucial question of how to control surplus wine production.

The Ten have already missed two self-imposed deadlines to complete the enlargement negotiations – by the end of last September, and then the end of December. Officials in Brussels believe they must agree all the details by the March summit meeting at the very latest, if formal ratification is to be given by all 12 parliaments in time for the promised accession date of January 1, 1986.

The need for urgency has been made all the greater by the insistence of the West German Government that member states' financial contributions cannot be increased before Spain and Portugal join – although the EEC budget is already heavily overspent. Without those extra contributions, Britain will be unable to withhold its promised Ecu 1bn budget rebate in the course of 1985.

But the ministers face a new hurdle in a demand by the Greek Government that a substantial package of Mediterranean programmes be agreed before it will approve the enlargement terms – a package for which there is equally no finance available without the intended increase in contributions.

The one area in which officials hope for appreciable progress this week is in the actual enlargement negotiations with Spain, although there, the topics are equally fraught with difficulty.

There is still virtual deadlock on the question of how to incorporate the Spanish fishing fleet into the precarious Common Fisheries Policy, with the EEC calling for a 10-year freeze, renegotiable after eight years, while Spain will not agree to any more than a seven-year transition.

On agricultural trade, however, there could be a deal to limit EEC farm exports to Spain if they threaten Spanish producers, in exchange for the demand of the Ten for a freeze on Spanish fruit and vegetable exports for at least four years.

European goals in space, Page 14

Belgian group seeks control of Ansbacher

BY MARTIN DICKSON IN LONDON

GROUPE Bruxelles Lambert, the Belgian investment bank, is negotiating to take a controlling stake in Henry Ansbacher Holdings, the London merchant banking group in which it already has a 29.9 per cent shareholding.

The move would mean a substantial capital injection – possibly up to £25m ($27.5m) into Ansbacher for business development. Groupe Bruxelles Lambert, part of the business empire of Mr Albert Frère, the Belgian financier, is thought to be interested in building Ansbacher up as a UK flagship.

Under a capital reconstruction last May, Groupe Bruxelles Lambert and its related Swiss financial company, Pargesa, injected £23.3m into Ansbacher in new equity and convertible loan stock, giving them a 29.9 per cent stake.

The architect of that agreement, Mr Charles Williams, unexpectedly resigned as managing director of Ansbacher earlier this month.

The bank has been experiencing difficulties with a U.S. broking subsidiary, Laidlaw Adams and Peck, which was acquired last year and is losing money.

Ansbacher is considering three options for the future of Laidlaw: to sell it back to its chief executive, Mr Robert Clayton, and his fellow original vendors; to sell it on to another banking house, retaining a minority interest; or revamping the business, probably eliminating its retail side.

London stock exchange debate, Lex, Page 16

AT&T considers establishing chip design centre in Britain

BY GUY DE JONQUIERES IN LONDON

AMERICAN Telephone & Telegraph, the largest U.S. telecommunications company, is considering establishing an advanced microchip design centre in Britain.

The plan is linked to the pending bid by AT&T and Philips, the joint venture set up a year ago by the U.S. company and the Dutch Philips group, for British Telecom public exchange orders worth several hundred million dollars.

AT&T has indicated to the British Government that if the bid succeeded, it might also consider eventually setting up a complete microchip plant in Britain at a cost of more than £100m ($110m).

The U.S. company is studying a more modest proposal for a facility which would use its own computerised techniques to design and lay out chip circuits. It would seek to sub-contract production locally, possibly to Mullard, Philips' UK component-making subsidiary.

The facility would be the most advanced of its kind in Britain and would be equipped to design so-called custom microchips with circuits only 1.7 microns (thousandths of a millimetre) wide.

A quiet technological revolution appears to be gathering pace at the grassroots of Europe's manufacturing industry. A recent survey shows that in West Germany, Britain and France the rate of application of microelectronics in manufacturing has begun to accelerate sharply. Page 16

AT&T has said that it would make the facility available to British industry and that the arrangement would enable AT&T and Philips to make locally about 80 per cent of the microchips required in their telephone exchanges.

AT&T, which is one of the world's largest microchip makers, is keen to expand its component activities in Western Europe. It is considering setting up design facilities in several other European countries, although the British proposal is believed to be the most advanced.

AT&T bid unsuccessfully for Britain's state-backed Inmos before its sale to Thorn EMI last year and recently agreed to set up a joint chip venture with Telefonica, which is part of the Spanish telephone company.

AT&T and Philips faces fierce international competition for the British Telecom order. A decision on this is due this spring. The other bidders are Canada's Northern Telecom and Thorn Ericsson, which is jointly owned by Thorn EMI and Sweden's L. M. Ericsson.

Each bidder has promised that it will make most of the exchanges locally if it wins the order.

Marketing and electronic data, Page 4; U.S. computers come in from the cold, Page 16; Texas Instruments results, Page 21

CONTENTS

OVERSEAS NEWS

Arms talks may last four years says Reagan

BY STEWART FLEMING IN WASHINGTON

ARMS CONTROL talks between the U.S. and the Soviet Union scheduled to begin in Geneva on March 12 could take longer than the four year term of his second Administration President Ronald Reagan has warned.

In an interview over the weekend Mr Reagan said that he was a little more optimistic than some o fhis top advisers about the prospects for success in the talks. But he added that he is "not euphoric."

A number of presidential arms control advisers, including ambassador Paul Nitze, have said that the outlook for agreement is not especially good. The forthcoming talks embrace long range strategic nuclear weapons, intermediate range nuclear missiles in Europe and space weapons.

An article published in the New York Times yesterday co-authored by Mr Max Kampelman, head of the U.S. negotiating team in Geneva, asks sceptically "how realistic it is to expect in the near future accommodation sufficient to generate the political will essential for a genuine breakthrough between the superpowers.

The authors, Mr Kampelman, Professor Zbigniew Brzezinski, former National Security Advisor to President Jimmy Carter, and Professor Robert Jastrow of Dartmouth College, argue strongly for the development of a space-based defence system against nuclear weapons. They claim that the U.S. has the technological capacity to deploy by the early 1990s a defensive screen which would be 90 per cent effective

In his radio interview President Reagan also issued a vigorous defence on the tough stand he is taking in current budget negotiations on military spending. The Administration is coming under heavy pressure from Republicans in Congress led by Senator Robert Dole, the Senate majority leader, to concede bigger cuts in defence spending in order to tackle the $230bn Federal budget deficit.

But Mr Reagan said that "We have squeezed that apple pretty good."

He did not deny, however, that there was strong sentiment in Congress for the Defence Department to share a bigger burden of budget cuts than Mr Caspar Weinberger, the Defence Secretary, has so far been willing to concede.

Subscriptions to Argentine loan top $4bn mark

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

SUBSCRIPTIONS to Argentina's new loan from commercial bank creditors have now topped the $4bn (£3.6bn) mark, putting it within close reach of the $4.2bn required, according to Mr William Rhodes, a senior Citibank executive.

Last week's decision by U.S. agencies responsible for supervising the banking system to lift their sub-standard classification of Argentine loans "will have a positive effect on the remaining U.S. banks that have not yet signed up," he said over the weekend.

The U.S. regulators altered the classification of Argentine debt to place it in the "other transfer risks" category, the same as that of countries which have rescheduled their debt such as Mexico in a move that reflects Argentina's recent $1.6bn International Monetary Fund agreement.

Other bankers warn, however, that resistance to the new Argentine loan remains strong among banks in Spain and Bavaria. All creditors must agree to the loan before it can be signed.

BASE LENDING RATES

A.B.N. Bank	12 %	Hong Kong & Shanghai	12 %
Allied Irish Bank	12 %	Johnson Matthey Bkrs.	12 %
Amro Bank	12 %	Knowsley & Co. Ltd.	12½%
Henry Ansbacher	12 %	Lloyds Bank	12 %
Armco Trust Ltd.	12½%	Mallinhall Limited	10 %
Associates Cap. Corp.	12 %	Edward Manson & Co.	13 %
Banco de Bilbao	12 %	Meghraj and Sons Ltd.	12 %
Bank Hapoalim	12 %	Midland Bank	12 %
BCCI	12 %	■ Morgan Grenfell	12 %
Bank of Ireland	12 %	Mount Credit Corp. Ltd.	12 %
Bank of Cyprus	12 %	National Bk. of Kuwait	12 %
Bank of India	12 %	National Girobank	12 %
Bank of Scotland	12 %	National Westminster	12 %
Banque Belge Ltd.	12 %	Norwich Gen. Tst.	12 %
Barclays Bank	12 %	People's Tst. & Sv. Ltd.	13 %
Beneficial Trust Ltd.	12 %	Provincial Trust Ltd.	12½%
Brit. Bank of Mid. East	12 %	R. Raphael & Sons	12 %
■ Brown Shipley	12 %	P. S. Refson	12 %
CL Bank Nederland	12 %	Roxburghe Guarantee	12½%
Canada Perm't Trust	12 %	Royal Bank of Scotland	12 %
Cayzer Ltd.	12 %	Royal Trust Co. Canada	12 %
Cedar Holdings	11 %	■ J. Henry Schroder Wagg	12 %
■ Charterhouse Japhet	12 %	Standard Chartered	‖12 %
Choulartons**	12 %	Trade Dev. Bank	12 %
Citibank NA	12 %	TCB	12 %
Citibank Savings	¶12 %	Trustee Savings Bank	12 %
Clydesdale Bank	12 %	United Bank of Kuwait	12 %
C. E. Coates & Co. Ltd.	12½%	United Mizrahi Bank	12 %
Comm. Bk. N. East	12 %	Westpac Banking Corp	12 %
Consolidated Credits	12 %	Whiteaway Laidlaw	12½%
Co-operative Bank	*12 %	Williams & Glyn's	12 %
The Cyprus Popular Bk.	12 %	Wintrust Secs. Ltd.	12 %
Dunbar & Co. Ltd.	12 %	Yorkshire Bank	12 %
Duncan Lawrie	12 %	■ Members of the Accepting Houses Committee.	
E. T. Trust	12½%	* 7-day deposits 8.75%. 1 month 9.50%. Fixed rate 12 months £2,500 8.75% £10,000 12 months 9.00%.	
Exeter Trust Ltd.	12½%		
First Nat. Fin. Corp.	11 %		
First Nat. Secs. Ltd.	11 %		
■ Robert Fleming & Co.	12 %	† 7-day deposits on sums of under £10,000 8⅝%. £10,000 up to £50,000 9⅛%. £50,000 and over 10⅛%.	
Robert Fraser & Ptns.	12½%		
Grindlays Bank	‡12 %	‡ Call deposits £1,000 and over 8¾%.	
■ Guinness Mahon	12 %		
■ Hambros Bank	12 %	§ 21-day deposits over £1,000 10%.	
Heritable & Gen. Trust	12 %	‖ Mortgage base rate.	
■ Hill Samuel	§12 %	¶ Demand deposits 8¾%.	
C. Hoare & Co.	†12 %	** See Provincial Trust Ltd.	

Moscow pessimistic on Geneva negotiations

By Patrick Cockburn in Moscow

THE NAMING over the weekend of the leaders of the Soviet negotiating team to start talks on disarmament with their U.S. opposite numbers in Geneva on March 12 has not been accompanied by any optimism in Moscow over the outcome of the meeting.

The Soviet line† s that there can be no progress in the talks about intermediate and strategic nuclear weapons without a limitation on weapons in space, above all, without negotiated restraint on the development of an anti-ballistic missile system.

This theme is likely to be constantly reiterated by the three Soviet negotiators, all of whom have extensive experience in disarmament negotiations stretching back to the early 1970s.

The chief of the negotiating team is Mr Victor Karpov. He led the Soviet team which walked out of the talks on strategic arms limitation in Geneva in December 1983 when cruise and Pershing2 missiles were first deployed in Western Europe. ...

...Mr Karpov also helped negotiate the first Strategic Arms Limitation (Salt-1) agreement in 1972 and headed the Soviet delegation to the Salt-II talks in 1978.

In addition to heading the negotiating team, Mr Karpov will represent the Soviet Union in the strategic section of the talks, one of the three groups into which the meeting will be divided.

Mr Yuli Kvitsinsky will head the key section of the talks on space weapons. He previously led the Soviet negotiating team on nuclear weapons and in 1983 took the "walk in the woods" with Mr Paul Nitze, the U.S. negotiator, in a bid to break the deadlock. The formula they discussed was repudiated in both Moscow and Washington.

In the new negotiations, intermediate weapons will be handled by Mr Alexi Obukhov, who accompanied Mr Andrei Gromyko, the Soviet Foreign Minister, to Geneva earlier this month for talks with Mr George Shultz, U.S. Secretary of State.

In recent weeks, the Soviet theme, expressed in numerous speeches and articles, is to accuse President Reagan of wishing, ever since his election in 1980, to change the balance of power in the world against Moscow. After returning from Geneva, Mr Gromyko said that "equality and equal security" were the basis for the talks.

Since the middle of last year, however, the Soviet Union began to soften in its declared resolution that there would be no resumption of talks until cruise and Pershing were withdrawn.

Instead, the Strategic Defence Initiative (SDI), or "star wars," as President Reagan's declared intention to find an anti-ballistic missile system has come to be called, became the focus of Moscow's attention.

Cyprus protests to UN over elections

PRESIDENT Kyprianou's Government has lodged a protest with the United Nations claiming the decision of the Turkish Cypriots to proceed with elections next June could jeopardise future peace talks for a federal solution for Cyprus. But observers noted that reaction to the Turkish move was being kept at a low key, reports Andriana Ierodiaconou in Nicosia.

Meanwhile, Turkish Cypriot leader Mr Rauf Denktash yesterday ruled out new talks to settle the Cyprus problem until after elections he plans to hold in June, Reuter reports.

Koch hails 'subway vigilante' move

BY TERRY DODSWORTH IN NEW YORK

MR ED KOCH, New York's colourful and loquacious mayor, *immediately had a word for it*. Within minutes of hearing that a Grand Jury had trimmed its indictment of Mr Bernhard Goetz, the so-called "subway vigilante" from a potential charge of attempted murder, to one of illegally carrying a gun, he was telling newsmen that it was a "Solomonic" decision.

As Mr Koch indicated, the Grand Jury's conclusion was undoubtedly one that appealed to New Yorkers torn between doubts about unbridled shoot-ups onthe subway and the rights of an individual to defend himself against intolerable violence.

In a case that has rivetted the attention of Americans over the last few weeks, Mr Goetz has admitted to shooting four youths in a subway car.

But he has claimed he was only acting in self-defence against a group of muggers who had demanded $5 from him—the sort ofevent commonplace in the atmosphere of semi-anarchy which reigns beneath the streets in certain parts of the city.

New Yorkershave responded overwhelmingly in his favour, handing out an unequivocal message to the Grand Jury that ordinary people are fed up with the dangers they have to run as a matter of course to travel around the city.

Mr Koch's view that this is a compromise worthy of Solomon is not shared, however, by a vociferous minority. All four youths who were hit by Mr Goetz's bullets—one of them is still in a coma—happen to be black.

Inevitably, there is a strong feeling in the city's black community that the decision not to prosecute Mr Goetz for attempted murder might lead to an "open house for whites to go out shooting coloured youths," as one white New Yorker puts it.

Black leaders, mainly churchmen, are now threatening to prosecute Mr Goetz privately. The upshot of the Grand Jury's deliberations, held to decide whether there is a case for an indictment or not, is that Mr Goetz will only stand for trial on the relatively minor issue of illegally carrying a weapon—which carries a maximum penalty of seven years in prison, but which is usually commuted to something much less for a first offender.

On the more serious issue of the shooting, it is held that he used a justifiable degree of force to defend himself from potential muggers — all youths who had had previous convictions for subway crime.

China seeks foreign managers for industry

BY MARK BAKER IN PEKING

THE CHINESE Government has approved plans to import foreign managers to take control of some of China's ailing industries.

The decision follows a successful experiment in the city of Wuhan in central China where a retired West German engineer has been shaking up the management of a large diesel engine factory.

A leading economist on China's state council, Mr Gu Mu, has announced that many more skilled foreigners will be invited to serve as advisers or take over the directorships of other industrial enterprises.

Mr Gu said skilled foreigners, especially retired engineers and managers from the West, were needed to improve the standard of industrial management and operations in China.

He told a recent meeting of the standing committee of the National People's Congress, China's parliament, that the move would help accelerate the training of better qualified personnel.

The big industrial cities of Shanghai and Dalian and the province of inner Mongolia already have plans to invite experienced foreign technicians to serve as enterprise directors or advisors.

In the case af Mr Werner Gerich, a retired engineer from Duisburg, the Wuhan People's Municipal Government has awarded him a citation for his success in revamping the operations of the city's diesel engine factory.

Mr Gerich became the first foreigner to be appointed director of a Chinese state enterprise since the 1949 Communist revolution when he took control of the 20,000-engines-a-year Wuhan plant last November.

In December the plant registered a record monthly production of 3,600 engines.

He sacked the plant's chief engineer and chief of quality inspection for incompetence and promoted younger and better-educated workers to senior positions.

A recent survey of the factory's 2,000 employees showed 95 per cent of them supported the radical management methods.

Mr Gerich has now agreed to extend his initial three-month contract for another two years to complete his reforms.

Row over Silesia embarrasses Bonn

BY RUPERT CORNWELL IN BONN

FAR FROM being laid to rest peacefully, West Germany's anachronistic, but explosive "Silesia question" has flared up again, to the huge discomfort and anger of Chancellor Helmut Kohl and his Government.

The reason for the new fuss —and possibly for much future diplomatic embarrassment — is a bizarre article, entitled with deceptive blandness "Reflections on Germany," which appears in the current issue of the official magazine of ethnic Germans expelled from Silesia, now part of Poland, after the destruction of the Nazi Reich in 1945.

The article in the magazine, called "The Silesian," is based on the premise that the only way the province can be recovered, and Germany reunited, is by deliberately weakening the Soviet Union.

It fantasises about a future Chancellor throwing off all German inhibitions to send the Bundeswehr marching eastwards, unchecked by Warsaw Pact forces and overwhelmingly welcomed by the local populations, to "liberate" the lost territories.

Not only have politicians on both left and right condemned the article, but also many spokesmen for the estimated 2m strong German Silesian community here, as a gross distortion of the aims of their movement.

Its 20-year-old author, Herr Thomas Finke, was at the weekend stripped of membership of both Silesian and CDU party youth associations.

But even this, and description of the thesis as "irresponsible, damaging and stupid" by the Chancellor, may not be enough to head off further repercussions at home and abroad.

French police fear fresh wave of terrorist attacks

BY DAVID HOUSEGO IN PARIS

THE FRENCH police were apprehensive yesterday of the possibility of fresh terrorist attacks against senior military officers after the killing on Friday night of M Rene Audran, the head of arms sales in the Ministry of Defence.

M Audren, 55, one of the most senior officials in the Ministry who also had responsibility for international arms collaboration, was shot down when he returned to his house in the western suburbs of Paris.

A woman who telephoned the French news agency AFP almost immediately afterwards, claimed that the killing had been carried out by the French terrorist group Action Directe.

It is the first time that Action Directe, a movement that surfaced in 1979, has carried out a cold-blooded murder in France and also the first time that an officer of M Audran's rank has been murdered since the Algerian war.

But Action Directe announced on January 15 that it was linking forces with the West German terrorist group the Red Army Faction (RAF) and his death seems to be the first fruit of their collaboration.

Both groups are also closely in touch with Belgium and Italian terrorist groups—pointing to a widening and intensifying of terrorist action

Until Friday's killings the main targets of Action Directe have been buildings, though often ones with a military link. They are also known to have been responsible for three deaths, but not premeditated assassination.

Their readiness to employ more violent means coincides with a further surge in terrorist actions in West Germany by the RAF.

Egypt and Israel hold Taba sovereignty talks

BY DAVID LENNON IN TEL AVIV

EGYPT and Israel began three days of discussions yesterday to try to resolve the dispute over Taba, a tiny Red Sea coastal area on the border between the two countries each of which claims sovereignty.

These are the first negotiations between the two countries for two years and Mr Shimon Peres, the Israeli Prime Minister, believes success in the talks could lead to an improvement of relations with Cairo

An agreement to hand security for Taba over to the Multinatonal Force and Observers (MFO), hwich monitors security arrangements in Sinai, was never implemented

Meanwhile, Mr Yitzhak Rabin, the Israeli Defence Minister, has flown to Washington for discussions with senior Administration officials, on U.S. military aid to Israel. Jerusalem has been pressing Washington to increase the military aid allocation, which this year stands at $1.4bn (£1.26bn rising to $2.2bn in 1986.

The Cabinet yesterday approved the new package deal controlling wages and prices. It also approved the proposed US$23bn budget for the 1985-86 fiscal year.

● Lebanese Prime Minister Rashid Karami cancelled yesterday's emergency Cabinet session as members of the Government tried to persuade a key Sunni Moslem Cabinet Minister to withdraw his resignation.

Mr Salim el-Hoss, labour and education minister, a former Prime Minister, resigned on Saturday. He has been the main mediator in the sharply split coalition Cabinet, and was known for his ability to arrange compromises among the leaders of the main civil war factions who make up the Cabinet.

OBITUARY

Doyen of foreign correspondents

THE DEATH on Saturday, at the age of 73, of James Cameron, probably the best-known British foreign correspondent of the last 40 years, will be mourned as much in Fleet Street as by his generations of readers on the News Chronicle, Daily Express, Picture Post and The Guardian.

That, perhaps, is the measure of the man. He not only won the affection and respect of the public but also of his many colleagues.

Mr Cameron, it seemed, had been everywhere. Wherever there was action, from the Congo to Vietnam, from Israel to Washington, he had "done" it. But he was never superficial and never anything other than professional. Among the many accolades he was voted Television's Journalist of the Year in 1965, and Foreign Correspondent of the Decade in 1966.

Like his near-contemporary, Mr Claud Cockburn, who died in 1981, Mr Cameron was a left-leaning liberal by conviction, much given to resignation. He left both the Express and the Post on points of principle. Always, however, there was a safe berth into which he could retreat. His eminence, and his skills, ensured that his career was never seriously at risk.

Between 1972 and the time of his death, Mr Cameron wrote a widely praised weekly column for The Guardian, touching on a whole range of subjects. He was also active on television and wrote books and plays.

Austria apologises to Jews over Nazi row

BY PATRICK BLUM IN VIENNA

DR FRED SINOWATZ, the Austrian Chancellor, has apologised to the World Jewish Congress over the action of Dr Fridhelm Frischenschlager, the country's Defence Minister, who last Thursday personally welcomed war criminal and former SS officer Walter Reder on his return to Austria.

Despite the apology, however, the row is not over and is causing a major political crisis of Austria's coalition government.

In a message yesterday to Mr Edgar Bronfman, president of the Jewish Congress, Dr Sinowatz said: "I am very for what happened."

The row could not have been more embarrassing for the Austrian Government co-inciding with the meeting for the first time in Vienna of the World Jewish Congress and with ceremonies marking the liberation fought years ago of the Auschwitz concentration camp and the 40th anniversary of the defeat of the Nazis.

The row is not over. Calls are mounting for Dr Frischenschlager's resignation and Dr Sinowatz is faced with the choice of either sacking the Defence Minister or riding the storm out with potentially damaging consequences for his Government and Austria's image abroad.

Sacking Dr Frischenschlager could lead to the break up of the coalition between the Socialists and the small right-wing Freedom Party, of which Dr Frischenschlager is a prominent member.

This would almost certainly force the Government to hold a general election — the last thing it wants to do in the present circumstances when it can be sure to lose a considerable number of votes and seats.

But keeping Dr Frischenschlager on would undoubtedly reflect badly on the Government and the country. Successive governments have fought hard to present Austria as having overcome the traumas of Nazism and reaffirm the country's commitment to democracy and abhorrence of fascism.

For Dr Sinowatz it is likely to be the most difficult decision of his career.

On Saturday Dr Sinowatz received a sharp rebuke from Mr Bronfman at the opening of the Congress. Mr Bronfman told the Chancellor that Jews all over the world were dismayed by the incident. He was "shocked, furious and deeply angered" by the Austrian Defence Ministers' actions.

Mr Bronfman did not openly call for Dr Frischenschlager's resignation, but other delegates at the Congress were less circumspect arguing that it was Dr Sinowatz's moral duty to sack his minister. A subdued Dr Sinowatz replied repeating his criticism that Dr Frischenschlager had made a "grave political mistake."

Yesterday Dr Alois Mock, leader of the opposition People's Party, called for Dr Frischenschlager's resignation. The minister's action was causing much damage to Austria and if Dr Frischenschlager refused to resign then he should be sacked, Dr Mock said. He also called for an emergency debate in Parliament.

This theme was taken up by Dr Franz Vranitzky, the Socialist Finance Minister. In a newspaper interview published yesterday Dr Vranitzky said that Austria's trading partners had reacted icily to Dr Frischenschlager's action and that Austria could face adverse reaction in the financial world. Without calling directly for his resignation Dr Vranitzky urged the Defence Minister to "consider the political and economic effects of his actions."

This is the first statement from a senior minister suggesting that Dr Frischenschlager should resign. Politicians of all parties have already called for his resignation.

The only dissident voice so far has come from the far right in the Freedom Party. Herr Jorg Haider, a young nationalist leader, said that he approved of the Minister's action. Reder was not a war criminal but "a soldier who had done his duty for the Fatherland," he said. Officials here fear the far right's reaction should Dr Frischenschlager be dismissed.

Hong Kong to trim interest rates

By David Dodwell in Hong Kong

INTEREST rates in Hong Kong are to be trimmed today following a decision by the Association of Banks, the informal rate-fixing cartel, to cut the prime lending rate by half a percentage point to 10 per cent.

The cut is the second in a month, and follows a further strengthening of the local currency, which has been linked to the U.S. dollar since October 1983 at a rate of HK$7.80 to the U.S. unit. The prime rate now stands 7 per cent below its peak in July last year.

One member of the Association of Banks noted the cut was in response to a substantial flow of money back into the territory. Over the past two years of uncertainty about Hong Kong's future, capital flight has been steady and substantial. As stability has returned in the wake of agreement between China and Britain on the territory's fate, so money has begun to flow back.

Lower interest rates have been a significant factor encouraging diversion of funds into Hong Kong's local stock markets, where investment demand has been crisp since just before the new year. Despite the availability of cheaper money, bankers say that demand for loans for local manufacturing industry is still sluggish.

UN chief set to make first Hanoi visit

By Chris Sherwell, South East Asia Correspondent

MR JAVIER PEREZ de Cuellar, the UN Secretary General, today embarks on the most delicate phase of his current South East Asian tour when he makes his first official visit to Vietnam.

The security situation in Indochina, and in particular the military stalemate in Kampuchea, are certain to be discussed. Vietnamese troops are still battling Kampuchean rebels six years after Hanoi's occupation of the country.

In the latest "dry season offensive" by Vietnam which began in November, some 170,000 Kampuchean refugees have fled across the Thai border. There have also been confrontations between Thai and Vietnamese troops.

Mr Peres de Cuellar visited the border area yesterday and received an appeal from refugee leaders to help end the suffering and restore peace. He was also briefed on the recent fighting and on UN relief efforts.

The UN Secretary-General's visit to Hanoi, which ends on Wednesday, coincides with reports from the U.S. that Vietnam is considering a significant foreign policy initiative aimed at normalising relations with Washington.

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WORLD TRADE NEWS

U.S. battle likely over curbs on Japan car imports

BY NANCY DUNNE IN WASHINGTON

THE REAGAN Administration and Congress are expected to begin a tussle this week over whether or not Japanese car import curbs should be extended for a fifth year.

The current quota, which limits imports of Japanese passenger cars to 1.85m annually, is set to expire on March 31. It was imposed by Tokyo in 1981 under pressure from the U.S., which warned that otherwise, Congress might impose even stricter limits on Japanese imports.

Administration officials, backed by General Motors, are almost universally in favour of lifting the restraints. Mr Bill Brock, the U.S. Trade Representative, recently repeated his long-standing opposition to renewal of the quotas, and the Commerce Secretary, Mr Malcolm Baldrige, is likely to oppose an extension as well.

However, protectionist sentiment has not abated in Congress where Senator Richard Lugar, chairman of the Senate Foreign Relations Committee, has predicted continuation of restraints to counteract the advantage given the Japanese by the strong dollar.

The Chrysler Corporation, which along with Ford Motor Company, American Motors Corporation and the United Automobile Workers' Union, wants to keep the quotas, has complained that the 20 per cent "misalignment in the dollar/yen exchange rates gives Japanese exporters a cost advantage of $900 per car."

Mr John Dingell, chairman of the House Energy and Commerce Committee and a key player in trade policy matters, has written to top Administration officials requesting their evaluation of the economic effects of voluntary car import restraints.

He complained that neither Mr Brock nor Mr B aldrige attended the Los Angeles summit between President Ronald Reagan and Japan's Prime Minister Mr Yashiro Nakasone, to discuss rumours that the Japanese are really not opposed to an extension.

Unless the United States can be guaranteed access to a significant share of the Japanese vehicle market, he asked, "why should the U.S. agree that the restraints be lifted?

"To what extent has the Administration considered sacrificing the restraint for opening Japanese markets for non-otor vehicle products of the U.S.?

Officials within the Office of the U.S. Trade Representative say there will be no "linkage" between the car restraints and other trade issues under discussion with the Japanese.

However, there are persistent reports of strong feelings in Japan towards voluntarily continuing the quotas to relieve U.S. pressure for market access in telecommunications equipment, computers, lumber, and medical apparatus and pharmaceuticals.

A spokesman at the Japanese Embassy in Washington said that if the restraints are ever to end, it will be this year when the U.S. industry is profitable and the Administration is free from election pressures.

The Cabinet Council on Commerce and Trade, which will meet on Thursday, is expected to consider three options: ending the quotas, asking for an extension, or doing nothing and letting the Japanese decide what they want to do.

Importer in bid for 'petrol partner'

TOKYO — Lions Petroleum Company, a Japanese retailer which defied Ministry of Trade and Industry (Miti) guidance by trying to import cheap petrol from Singapore, said it is planning to tie up with an independent U.S. oil company to import U.S. petrol to sell in Japan.

Lions president, Mr Taiji Sato, said a renewed bid to import petrol from Singapore Petroleum Company (SPC) had failed although SPC had said it would sell to him again after next April. He declined to name the U.S. oil company he hopes to deal with.

Mr Sato said SPC had blamed technical reasons at its refinery for not being able to sell to Lions on this occasion.

But he felt his bid was also causing problems and the refiner would like the current controversy to die down before it signs a contract again with Lions Petroleum.

Meanwhile he said he intends to form "some kind" of partnership with an independent U.S. oil company

A Miti official said that Ministry discussions on import liberalisation of some oil products which began last June had not been influenced by the Lions case.

Miti administrative guidance says petrol should be refined in consuming areas. Reuter

ITC FIRST-STAGE RULING IN SUMITOMO CASE

Corning Glass wins partial victory

BY PAUL TAYLOR IN NEW YORK

CORNING Glass Works, the major U.S. glass manufacturer, has won a partial victory in the first stage of a U.S. International Trade Commission investigation into the U.S. group's claims that Sumitomo Electric Industries of Japan and its U.S. subsidiary have infringed two of its basic optical waveguide patents.

The U.S. group is one of the world leaders in the growing market for advanced fibre-optic cable used in the telecommunications industry.

It said an administrative law judge investigating its claims on behalf of the ITC had ruled that Sumitomo Electric Industries and its subsidiary, Sumitomo Electric USA, had imported and sold optical waveguide fibres in the U.S. that infringe the two valid Corning patents.

However, the judge also ruled that Sumitomo's importation and sale of the fibres has not, as yet, substantially injured the U.S. domestic industry.

The ITC investigation, one of a series of suits and countersuits between Corning and Sumitomo in the U.S., was started early last year, after Corning filed a complaint seeking an exclusion order.

The complaint was against the claimed imporation and sale of optical waveguide fibres produced and sent into the U.S. by Sumitomo. In April, the ITC agreed to investigate the complaint which alleges unfair trade practices.

The judge's decision represents a preliminary ITC finding which will now go before the commission for a final ruling in the next few months. Sumitomo had claimed that the patents were invalid and that its fibres did not infringe Corning patents.

This preliminary finding is viewed in the industry as the first in a series of legal cases which will determine whether Japanese manufacturers can enter the U.S. optical fibres market which is expected to grow to nearly $2bn (£1.8bn) by the end of the decade.

The two Corning patents involved in the case cover the composition of fibre produced for terecommunications purposes and a manufacturing drying process.

Corning said it was pleased with the judge's decision on the patents issue.

But the company's general counsel, Mr Alfred Michaelson, added that Corning may ask the commission to review the judge's determination that there has been no substantial injury to the U.S. domestic industry—and therefore issue an exclusion order against further Sumitomo imports of optical waveguide fibres.

Sumitomo, however, also claimed the judge's findings as a partial victory because the judge found no evidence of injury to the domestic industry—a crucial factor in determining the final ITC response to Corning's complaint.

Simitomo added that it believes there is "a good possibility" that the commission will also decide there has been no injury and added that it remains confident that the patent dispute will be resolved in the federal courts.

In addition to the ITC investigation, two other suits are pending in the U.S. federal courts.

In August last year, Sumitomo Electric Research Triangle, another subsidiary of the Japanese parent group, filed a suit in North Carolina requesting a judgment that the same two Corning patents involved in the ITC case are invalid and not infringed.

Last month, Corning countersued in the New York courts claiming that Sumitomo has infringed the two patents and a third, and seeking unspecified damages and in injunction against Sumitomo, halting future sales of the fibres in the U.S. Both court cases are pending.

The proliferation of legal action over the patents reflects the increasingly competitive and expanding nature of the optical fibre market.

Mr James Houghton, Corning's chairman, describes optical waveguides as a key business for Corning's future and said that the administrative law judge's decision "strengthens our position in what is becoming a highly competitive industry."

S. Korea microprocessor deal

INTEL corporation of the U.S. has licensed Samsung Semiconductor and Telecommunications Company, of South Korea to manufacture and market Intel-designed microprocessors, microcontrollers, and peripheral products, Steven B Butler reports from Seoul.

Mr Robert Noyce, Intel's vice-chairman, said the agreement was aimed principally at supplying products to the South Korean market, but that eventually Samsung would be able to market the devices throughout the Pacific basin.

Mr Noyce said that by supplying the South Korean market now, the company hopes to "capture the architectural decision in the minds of computer designers.

"With more designs available on that architecture, more software will be available, and the more demand there will be for Intel products."

Pact will boost Greek exports to Albania

By Andriana Ierodiaconou in Athens

GREEK EXPORTS of agricultural and light manufactured goods to Albania will reach $40m (£36m) in 1985 under a new economic co-operation agreement signed at the end of a visit to Athens last week by Mr Shane Koreaci, Albania's Foreign Trade Minister.

The agreement, which reflects a current thaw in the troubled political relations between the two countries, foresees an equal level of Albanian exports to Greece, mainly electrical power, and other petroleum products.

Greece has run a negative trade balance with Albania since 1982. According to the latest available figures in 1983, Albania imports reached $18.7m against Greek exports of $8.2m.

As well as eradicating the trade deficit, the agreement revives a 1977 proposal by Tirana, for the setting-up of a Corfu-Albania ferry link. A land border crossing was formally opened in January.

The agreement raises the possibility of Greece undertaking the construction of a $7m chromite processing plant in Albania, of an increased Greek role in the land and sea transport of Albanian goods to Europe, and of co-operation in fishing, fish farming and animal husbandry projects.

Rank Xerox in $30m joint venture for Indian copiers

BY JOHN ELLIOTT IN NEW DELHI

AN INDIAN joint venture containing the UK's biggest equity investment for many years will start commercial production of Rank Xerox paper copiers in March in an undeveloped area north-east of New Delhi.

Trial production at the $30m (£27m) project started on Saturday. Rank Xerox has invested 40 per cent of the total equity. The partner is Indian Reprographics, part of the Modi family of companies, one of India's large combines.

For the past three years, a smaller Modi-Rank Xerox joint venture called Indian Xerograpic Services has been assembling Xerox—1075 copiers from imported parts in Thanna, north of Bombay, for export to Eastern Europe, mainly the USSR.

This is one of several export-oriented factories on India's west coast built to cash in on the USSR's Indian rupee trade. Several similar export factories produce pharmaceuticals and textile goods for the USSR.

The new venture, called Modi Xerox, is aimed at the Indian market, although the Indian Government has said it wants 30 per cent of the value of production exported within three years.

Almost all the components of the copiers will initially be imported at the new factory. But the Government is demanding that 85 per cent of the value of components should be made in India within five years.

The copier being produced is the 1045 which was introduced in Europe 18 months ago. An output of 35,000 is being aimed for over five years. The copier market in India is only just opening up, and Rank Xerox will be competing with a number of locally-assembled imported products.

Alan Friedman reports from Milan: The Government of India is to receive a $400m credit line from Italy. The agreement to provide India with the export-linked funds was signed in Rome at the weekend by Sig Nicola Capria, Italy's Foreign Trade Minister and his Indian counterpart.

The three-year loan is tied to Indian purchases of Italian engineering products and plant construction projects, and will probably mean contracts for civil engineering and plant equipment companies within the ENI Italian state energy group.

SHIPPING REPORT

Tanker business light ahead of Opec talks

BY ANDREW FISHER, SHIPPING CORRESPONDENT

BUSINESS in the tanker market was light last week ahead of tomorrow's meeting in Geneva of the Organisation of Petroleum Exporting Countries as traders awaited the effects of possible price changes on demand for shipping.

But dry cargo rates firmed on the Atlantic, with the U.S. Gulf-Continental Europe grain rate up to some $9 a ton and even $9.90 for small ships.

On the Pacific, however, rates looked "distinctly soggy," said Denholm Coates. The colatile U.S. North Pacific-Japan grain rate fell below $9 a ton, with two fixtures for February at $8.75 and $7.75.

Tanker brokers hoped that the Opec deliberations would result in some price stadiness at a lower level, thus eventually stimulating market activity.

Demand from the Gulf was slow last week. E. A. Gibson Shipbrokers said a few Japanese charterers were taking VLCCs (very large crude carriers) at around Worldscale 28/29, similar to previous week's levels.

One key reason for the continued low level of tanker rates, especially for VLCCs, is the high volumeo f surplus tonnage.

Kieran Cooke in Jakarta adds: In what is being seen as a further move towards closer relations with China, the Indonesian Government has announced that its country's freighters are free to sail to Chinese ports.

Diplomatic relations between China and Indonesia have been frozen since 1967 after Jakarta accused Peking of being behind a Communist coup attempt but recently the two countries have been moving to re-establish direct trade relations. Indonesian ships have been taking goods to China for some years but only with special permission from the Defence and Security Ministry.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

		Dec. '84	Nov. '84	Oct. '84	Dec. '83
U.S.	000s	8,191	8,142	8,367	9,208
	%	7.2	7.1	7.3	8.2
UK	000s	3,219	3,223	3,225	3,079
	%	13.4	13.4	13.4	12.8
		Nov. '84	Oct. '84	Sept. '84	Nov. '83
W. Germany	000s	2,189.2	2,144.5	2,143.5	2,193.3
	%	8.1	8.0	8.0	8.1
France	000s	2,524.9	2,515.6	2,415.9	[illegible]
	%	11.1	11.0	10.6	9.7
Italy	000s	2,982.8	2,967.8	2,901.4	2,799.1
	%	13.2	13.1	12.8	12.4
Netherlands	000s	797.5	802.6	821.4	837.0
	%	14.3	14.4	14.7	15.0
Belgium	000s	617.8	623.3	630.7	613.6
	%	15.0	15.2	15.4	14.9
Japan	000s	1,590	1,590	1,598	1,470
	%	2.78	2.78	2.77	2.64

Source (except U.S., UK, Japan): Eurostat

TECHNOLOGY

EDITED BY ALAN CANE

INFORMATION TECHNOLOGY IS PRODUCING A PROFOUND UPHEAVAL IN ADVERTISING

How to sell ideas the electronic way

BY ALAN CANE

SALES AND marketing departments in the developed world are facing the most profound upheaval since the advent of television advertising because of the spread of information technology.

Wholesalers, agents, order takers and field sales staff are all at risk. Their jobs are likely to be changed drastically or swept away in a flood of electronic information systems.

Sales and marketing managers ignore these new threats and opportunities at their peril. They will either be caught with their technological trousers down while more farsighted competitors make the running, or they may pursue badly thought out plans that provoke adverse or unforeseen reactions in their customers and competitors.

Some companies have already picked up this new technological football and are running with it. For example:

● The South East Electricity Board has improved its service and hopes to increase sales by installing a private videotex system with 100 terminals, each equipped with a printer. Sales staff in each of the Board's 77 electrical retail shops have immediate access to the most up-to-date version of its product catalogue, together with all the information on any product including dimensions, features and illustrations of costs for individual customers

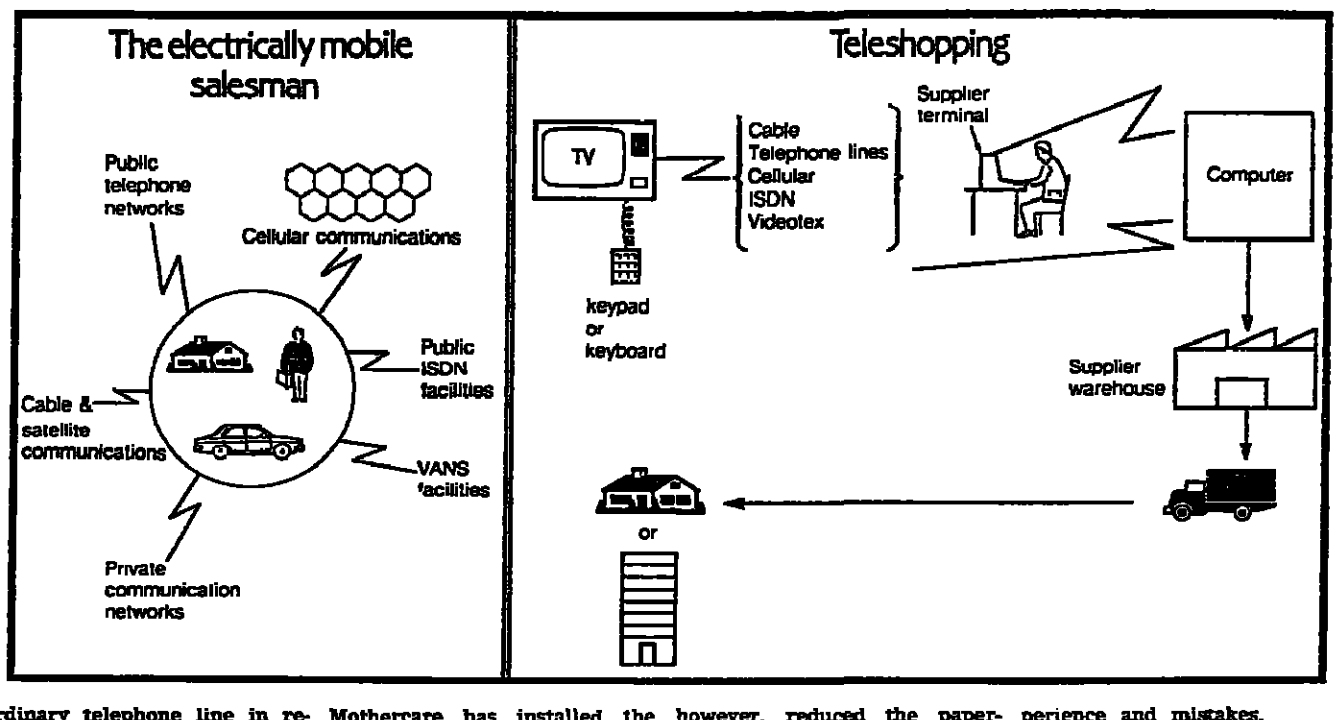
Staff savings alone are expected to pay for the system with net benefits being expected in the first year of operation. The major benefit, however, is expected to be an increase in sales through greater certainty about stock levels and delivery dates.

● Brooke Bond Oxo installed a voice response system to speed up and increase the accuracy of its ordering process.

Until 1982, its 250 strong sales force recorded orders on customer cards, transcribed the details onto printed forms and used an answerphone service to dictate orders to the computer centre.

This created, inevitably, a bottleneck which had a knock-on effect throughout the organisation.

The answer was a Comdial voice response system in which each salesman was equipped with a special touch tone telephone adaptor, a device which sends signals down an ordinary telephone line in response to numbers selected on the keypad which can be read by a computer at the other end of the line.



Pre-recorded voice messages repeat the information so the salesman is certain the order has been transmitted correctly.

Now information collected on Monday is processed within 24 hours, allowing distribution managers more time to plan loads and routes for end-of-week deliveries. Postal charges, telephone charges and telephone answering machine charges have all been reduced while the accuracy and immediacy of management information has been improved.

● During 1982 Mothercare, the retail chain specialising in everything for mothers and babies, installed videodisc systems in four of its 210 branches—the installation consisted of a colour television, a standard videodisc player, a numeric keypad and numbered photographs of the products being promoted.

Potential customers pressed the appropriate button on the keypad to select a short presentation showing the product being used and highlighting the safety features.

After 24 weeks, sales in the branches fitted with video systems were 20 per cent higher than control branches. Now Mothercare has installed the system in 80 branches.

● Distriphar, a Paris-based subsidiary of Roussel-Uclaf, one of the two largest pharmaceutical groups in France, is responsible for storing, marketing and distributing pharmaceutical products to wholesalers, pharmacies, hospitals, doctors and laboratories throughout France.

It has installed a value added network (VAN) service to improve communication between its main distribution depots and its customers.

The network is based on the French telecommunication authority's videotex (viewdata) service and it gives its customers access to a range of information including warnings, safety information, product data and useful contact names and telephone numbers.

The system allows Distriphar's customers to order products direct; it automatically takes account of any discount arrangements.

The cost of implementing the service (on twin ICL 2966 mainframes) was about $150,000; it is used by about 850 pharmacies who have access to the system via Minitel videotex terminals.

Distriphar believes the service has increased its sales volume although it has not measured the increase. It has, however, reduced the paperwork and costs associated with the order process. It expects that eventually 3,000 clients will use the service.

These case studies, and many others, are taken from a new study* of the influence information technology is expected to have on marketing and selling published by the consultancy Butler Cox.

Its author, Tim Johnson, argues that over the next five years, information technology will be seen as the key resource that can make or break companies.

He points to the value for wholesalers of an electronic link between their head offices and their customers, like that operated by Distriphar.

Such links make it simple to distribute product information and to collect and process orders—they also "tie in" the customer to the supplier.

Organisations have to decide if they wish to be technology leaders or technology followers, Mr Chapman says, and plan accordingly.

Technology leaders are innovators, hoping to exploit their position of being first in the marketplace with a new technique.

Technology followers respond to the activities of the leaders, hoping to profit from their experience and mistakes.

What areas of selling and marketing can expect to benefit from information technology? Mr Chapman identifies six:

— Selecting the right sales prospects through the use of computer based information.

— Minimising wasted travel time; computer routeing is one option, but portable telephones are better.

— Improving sales effectiveness with better presentations using video cassette recorders and portable computers.

— Speeding up orders and quotations using portable computers or touch tone telephones.

— Reducing wasted time for executives by installing personal computers in their homes and electronic mail systems at work.

— Improving the effectiveness of group meetings through video cassettes, interactive videodiscs, video conferencing

Mr Chapman warns that organisations that ignore these changes are likely to suffer as their traditional competitors stream ahead or as new competitors break into their markets. And anybody who thinks he is exaggerating should ponder on the banks and the financial services market.

**Information Technology: Its impact on marketing and selling*, Butler Cox, £500 for three copies.

Agriculture

In-built crop protection

A BELGIAN company is claiming a breakthrough in a branch of genetic engineering which aims to confer pest resistance on crop plants by enabling them to produce their own insecticides.

Some organisms produce chemicals under genetic control which inhibit or stop the growth of other organisms. The trick is to isolate the genetic material responsible for the production of the chemical and insert it, using genetic engineering techniques, into the cell of a crop plant so that it too will produce the toxic chemical.

The bacterium Bacillus thuringiensis, for example, produces proteins which have long been known for their pesticidal activity.

Now Plant Genetic Systems of Belgium claims to have implanted the genes responsible in tobacco plant cells. Charles Tatum of U.S. chemical manufacturers Rohm and Haas which helped to fund the project said further studies would be needed to determine its commercial potential.

Steelworks

Grading coal

NKK, the Japanese steel and shipbuilding company, has developed a system which can accurately grade coal, and assess the quality of coke.

The system has been installed at the company's Keihin and Fukuyama works to help improve the production of pig iron in blast furnaces. NKK says that its system is faster and more accurate than conventional methods.

The analyser measures the reflectance of coal and coke through the combined use of an image analyser and a microcomputer controlled microscope. It can identify, and quantify, the microstructure of coke such as fine or coarse mosaic, fibrous and inert matter.

Industrial

Piston motors

HYDRAULIC RADIAL piston motors for industrial use have been developed by Partek Corporation of Finland.

Designated Black Brain, the motors have high starting torque and smooth running even at low speeds. Likely applications are in elevators, milling machines, material handling devices, robotics and ski lifts.

The new motors have stepless speed control and can cope with high radial loads and high pressures. They can be disengaged easily, by pressure or mechanically and can also be equipped with wet disc or drum brakes. More from the company at Salantie 19, SF-04300 Hyrylä, Finland.

Software

Estate agents

A SOFTWARE package has been launched for estate agents to run on the FX30 microcomputer from Future Computers. As well as standard word processing and cash flow analysis, the Nomad program provides a matching of potential buyers against property types and the status of agency "for sale" boards.

Sales in Progress is a feature to monitor each transaction and clients can be identified by name or address within the system. The software plus hardware is available through Etafield of Harlow in Essex at a cost of £6,900. More information on 0323 897469.

Television

End of an era

A SLIGHTLY sad moment occurred earlier this month when the last of the 405 line television transmitters, at Melvaig in West Scotland, was switched off. The frequencies will be going to mobile radio.

In its hey-day, the 405-line BBC network, which started in 1936 in London at Alexandra Palace, consisted of 197 transmitters. It gave rise to a whole new industry involved in supplying transmitters and aerials, studios, cameras and other equipment. It was the first public TV service in the world.

Automotive

Saab's electronic ignition

SAAB-SCANIA, the Swedish automobile and aerospace group, has great hopes of an electronic ignition system it has developed for cars. It has managed to obtain patents for the more novel aspects of the design.

A microprocessor controls the firing sequence of the engine. This obtains data from a sensor on the crankshaft to detect ignition pulses. Entirely electronic in design, the ignition system has no rotating distributor or high tension leads. Instead, a small high power ignition coil is fitted to each individual spark plug.

Saab-Scania has also opted for a capacitive, rather than the more conventional inductive ignition system. The company says that this overcomes some disadvantages of most commercial systems such as slow operation caused by a variety of defects such as dirty ignition leads or damp spark plug insulations. This causes power to be lost.

The ignition coils and all parts operating at a voltage above 12 volts are totally enclosed in a special ignition cartridge or cassette. This is important for safety. Also the supply voltage to the ignition coils is only 400 volts and is not produced until the instant when the spark is generated.

Saab accepts that its capacitive ignition system is based on well-known ideas. Capacitive systems in relative primitive forms have been available for a number of years but they suffer from so many problems that they were not useable on a large scale, says the company.

KEVIN DONE

N. Ireland parties to seek agreement

BY BRENDAN KEENAN IN BELFAST

THERE ARE to be "talks about talks" between the political parties in Northern Ireland in the latest attempt to seek some measure of political agreement.

Mr John Hume, leader of the main nationalist party, the Social Democratic and Labour Party (SDLP) said at his annual conference at the weekend that he would seek clarification from the Unionist parties about their recent invitations for discussions.

Political leaders on both sides seem to believe that Mrs Thatcher, the UK Prime Minister, may take revenge on any party which is seen to obstruct the search for consensus. It has been made clear that if the present initiative fails, the Government will take its own decisions on how the province is to be administered and on relations between the UK and the Irish Republic.

The SDLP is deeply sceptical about the Unionist overtures and doubts that they are willing to make any major concessions. The party is also reluctant to have serious negotiations before it knows the outcome of the discussions between London and Dublin on the role of the Irish Republic in any settlement.

This will not be clarified before the next meeting between Mrs Thatcher and Dr Garret FitzGerald, the Irish Prime Minister which, if official contacts go well, could take place at the end of February or early March. If they do not prove fruitful, the meeting could be postponed until after Northern Ireland's local government elections in May.

The SDLP's chief whip, Mr Edward MacGrady, argued at the conference that there should be no talks with the Unionists at present and negotiations should be confined to the two governments. Mr Hume is convinced that the UK Prime Minister intends making an effort to break the Ulster deadlock and wants his party to appear flexible.

In the meantime, Mr Douglas Hurd, the Northern Ireland Secretary, may shortly take steps to remove some legislative irritants to nationalist feelings, such as the ban on place names in the Irish language and the flying of the Irish tricolour, even in nationalist areas.

The key issue is how to resolve the demand of the SDLP and the Irish Government for executive functions for Dublin in the administration of Northern Ireland and the Government's insistence that any role must be purely consultative.

PARTY POLICYMAKERS CONCENTRATE ON FORMING MAIN OPPOSITION TO THATCHER

SDP takes fight to the Tories

BY PETER RIDDELL, POLITICAL EDITOR

THE COUNCIL for Social Democracy, the Social Democratic Party's (SDP) 400-strong policy-making body, has shifted the direction of the party's attack clearly against the Government's economic and social programmes.

This switch, which emerged at the council's weekend meeting in Birmingham, follows sensitivity among some activists and party leaders about charges of a "shift to the right" and "sub-Thatcherism" within the SDP.

There was clearly a desire in Birmingham, to answer such charges and to concentrate on attacking the Government.

Differences over economic policy are mainly to do with style rather than substance, and there was no sign at the weekend of any basic disagreement with the leadership of Dr David Owen. The new emphasis on attacking the Government, however, was reflected both in speeches from the leadership and from the floor.

In the unemployment debate Mr Ian Wrigglesworth, who has emerged as a major figure in the party, said the SDP was on a springboard to replace Labour as the second party facing the Government. He appealed to Tory moderates to join them in fighting Government economic policy. He said that if this group fought, it could change the strategy of the forthcoming budget.

SDP leaders do not expect any defectors among Tory MPs, however, though they are hopeful of attracting disillusioned former Tory voters as well as traditional Labour and Tory voters.

Dr Owen is still worried by the significant minority on the national committee which, he believes, wants to blur the party's identity with the Liberals. He is concerned that the SDP should provide a distinct cutting edge and discipline within the Alliance against what he sees as the occasional indiscipline of the Liberals.

There remains an air of somewhat unreal detachment about some aspects of the party. The miners' strike was hardly mentioned at the weekend. No-one proposed the dispute as a subject for one of the four emergency debates, though it was discussed at last year's council.

The only time passion entered the debates was in a long discussion on whether the age of majority for political and social rights should be lowered to 16. In the end, adult prudence and an age of 18 was accepted.

What had been billed as a potential row over the use of plastic bullets in Northern Ireland was successfully defused by Dr Owen. The potential conflict had arisen over the national policy committee's disagreement with a decision by the previous council in favour of the immediate withdrawal of such bullets.

Dr Owen favours waiting until an inquiry is held which would not pre-empt such a decision.

Bedford to cut truck output by 40%

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BEDFORD, General Motors' British subsidiary, is to cut its truck production capacity by 40 per cent this year.

The company has the capacity at present to produce 50,000 trucks a year at its Dunstable plant in Bedfordshire, compared with an output of only about 17,000 in 1984 and UK registrations of 7,000.

This year the Dunstable truck operations will be consolidated into two buildings compared with four used today and the capacity will be reduced to 30,000 a year. The company says the reduction will not mean any further cut in the workforce at the Dunstable plant.

Bedford could satisfy nearly all the UK demand for trucks over 3.5 tonnes gross weight: last year nearly 53,000 were registered. The company has been suffering from the downturn in export demand.

The rationalisation follows hard on the heels of a re-organisation of Bedford's van production facilities at nearby Luton which have been consolidated into two buildings from 13 previously.

OBITUARY

Lord Harlech, Ambassador in Washington

LORD HARLECH, who died at the weekend, aged 66, after a car crash, was a superlative example of the effortless ease of aristocratic liberalism, which had its heyday in the 1960s.

A product of Eton and New College Oxford, the fifth Baron Harlech, could presumably have led a life of cushioned ordinariness. Instead, he used the many connections that came his way, in Parliament, big business and the White House, to establish a formidable career as diplomat, negotiator and patron of the arts. He also scored significant success in the increasingly cut-throat world of television, where he helped found Harlech Television (HTV), based in his native Wales, but with an influence throughout the independent network.

In 1961, he was appointed Ambassador to Washington, and in this capacity entered the most public phase of his life, becoming a close friend of the Kennedys and a valuable instrument of the Anglo-American alliance.

For the 10 years until his U.S. appointment, he had been Conservative Member of Parliament for Oswestry and was Minister of State at the Foreign Office between 1957 and 1961. He returned to Britain as a member of the Conservative shadow cabinet and was briefly deputy opposition leader in the House of Lords before moving full-time into television and the arts.

Lord Harlech was president of the British Board of Film Censors, which he successfully persuaded to expand the range of film material that could be viewed by the general public. He also promoted the European Movement and the cause of electoral reform.

Midland Bank brokers deal 'still on'

By David Lascelles, Banking Correspondent

MR GEOFFREY TAYLOR, chief executive of Midland Bank, yesterday gave his personal assurance to the partners of Greenwell & Co that Midland still wants to purchase the stockbroking firm.

Commenting on rumours that the proposed alliance between Greenwell and Samuel Montagu, Midland's merchant banking subsidiary, was in trouble, Mr Taylor said: "Our management remain fully committed to the principle of raising our stake beyond 50 per cent, and negotiations with that objective are continuing."

The present deal, negotiated last year, gives Montagu 29.9 per cent of Greenwell with a provision that this can be raised to 50 per cent when stock exchange rules permit.

Midland which owns 60 per cent of Montagu, and Aetna, the U.S. insurance company which has the remainder, have been talking to Greenwell about raising their stake to 100 per cent.

Negotiations have concerned the price and the way Greenwell should be incorporated into the Midland Group. Although these talks have encountered difficulties these are said not to be substantial.

After its losses at Crocker National Bank, Midland is keen to exercise close control over the combined operation. The proposal is that Greenwell-Montagu's financial market activities should be supervised by Mr Ernst Brutsche, the recently-appointed head of Midland's treasury operations.

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UK NEWS

Brussels asked to rule on scheme to cut drugs list

BY LISA WOOD

THE BRITISH Medical Association (BMA) has taken its struggle against Government proposals to limit the number of drugs available on the National Health Service (NHS) to the European Commission.

The BMA argues that the scheme, due to be introduced in April, contravenes European law because objective and verifiable criteria have not been given on why certain drugs have been excluded. Foreign companies in particular, said the BMA, would be discriminated against in the new list.

The BMA's case has been presented in a letter from Sir Douglas Black, president of the BMA to M Jacques Delors, president of the Commission.

He informed M Delors that solicitors acting on behalf of the BMA had asked Mr Kenneth Clarke, the Health Minister, what were the objective criteria for excluding certain drugs on the proposed list. No answer had been given.

"We continue to have severe doubts about whether or not there are objective criteria for inclusion on the list and, if indeed there are any, whether they are verifiable as required by the Court of Justice," Sir Douglas said.

The BMA said the need for objective and verifiable criteria had been given in a decision last February by the European Court of Justice in the case of Duphar and Others against the Netherlands.

The provisional list of drugs, as presented by the Government in a consultative document could reduce the total number available for NHS prescriptions in five treatment categories from 415 to 31. Sir Douglas said in his letter: "You will appreciate that, given that Health Service prescriptions account for about 99 per cent of the prescriptions written by GPs, this scheme amounts to a massive restriction on the free market in drugs available for prescription by a GP under the NHS."

Foreign companies supplied some 80 per cent by value of the range of 415 drugs now available.

The Government is proposing to limit the range of drugs to patients in order to reduce the size of the annual drugs bill.

Sir Douglas said that there was already a well-established procedure, under the Health Service Scheme for deciding whether or not a new product was indeed a "drug" and so prescribable under the NHS.

Sir Douglas said he understood that the Italian and West German governments had modified similar lists after representations being made by the Commission.

The Department of Health and Social Security said: "We are satisfied that the proposals comply with European law."

Dunlop shareholders may get bigger stake in rescue deal

BY CHARLES BATCHELOR

SMALL SHAREHOLDERS in Dunlop, the debt laden tyre and rubber products group, are to be offered a bigger stake in the £142m rescue package announced earlier this month.

The 53 banks which are backing the re-financing plan will make available on a first refusal basis to existing shareholders all of the £40m worth of ordinary shares they plan to take up in exchange for debt. The banks initially agreed to make only half of these shares available to existing shareholders.

This represents a major success for the Dunlop Shareholders Association, headed by Professor Robert Pritchard of Leicester University. The association has been fighting to minimise the dilution of existing shareholders' stakes.

It also reflects the concern of Dunlop and its bankers to gain the support of shareholders against the unwelcome £33m bid from BTR, the broadly based conglomerate. Shareholders are due to vote on the rescue package on February 8.

Prof Pritchard said yesterday: "The banks see no difficulty, which is very encouraging. But they are now looking at the technical ways and means of implementing the change. There is no question that the association is increasingly moving to support the Dunlop board."

The banks' decision, which was announced to Prof Pritchard on Saturday, came as Sir Michael Edwardes, Dunlop's chairman, launched a campaign to lobby support for the re-financing package and against the BTR bid.

In a two-page letter which Dunlop's 17,000-strong UK workforce will receive today Sir Michael calls for pressure to be exerted on MPs, trade union officials and "anyone you think can help to keep Dunlop independent."

He said that many of BTR's activities were similar to those of Dunlop and warned that this could lead to job losses if the bid succeeded. Dunlop estimates that £70m-£100m worth of its £1bn turnover comes from products such as hoses, belting, automotive components, bedding and industrial footwear; all areas in which BTR is active.

Dunlop has submitted information to the Office of Fair Trading which has begun preliminary inquiries into whether the BTR bid might raise monopoly objections.

Mr Ivan Boesky, the U.S. arbitrageur who has taken strategic holdings in many companies facing take-over bids in both Britain and the U.S. is believed to have bought shares in Dunlop.

This would help explain the buoyancy of Dunlop's share price. The shares rose a further 2p to 37½p on Friday.

BTR said it had been unable to detect buying by Mr Boesky.

Midland Bank, which is believed to have more than £40m worth of loans outstanding to Dunlop, denied a weekend press report suggesting that it backed the BTR bid approach. Other leading banks have rejected the BTR bid.

INSURANCE

Brokers face up to hard times

BY JOHN MOORE, CITY CORRESPONDENT

A DRAMATIC change in the world's underwriting cycle may be underway, if the latest trends reported by brokers and underwriters are sustained.

Already, insurance professionals are saying that there has been the biggest contraction in capacity since the period in the mid-sixties when Hurricane Betsy swamped the world's insurance markets with huge losses.

Insurance premium rates have hardened dramatically in London following a long period of weakness as existing insurance policies have been renewed over the last few weeks. It is also reported that insurance brokers are having great difficulty in placing other than high quality risks, and in some cases have faced problems in completing insurance programmes as underwriters have cut back on their business volumes.

A review of the various classes of business shows the following trends after the latest renewal season.

● Marine insurance. The Institute of London Underwriters, representing over 100 insurance companies operating in the London market, said last week that marine insurers are experiencing better times with their hull insurance accounts. At insurance brokers Bain Dawes, Mr Derek Prince who heads the marine division, estimated that rates on small fleets might be rising by around 30 to 40 per cent for those with bad records, with perhaps 2½ per cent increases on rates for larger fleets with reasonable records.

London insurers, including Lloyd's underwriters, have a commanding share of the world's marine business. With some £1.5bn ($1.66bn) in premiums, London insurers carry the risks of around 40 per cent of the world's fleets. Yet the London market's business is under attack from increased competition.

Mutual clubs formed with the participation of shipowners, who insure each other on a mutual basis, are making some inroads. Three major U.S. container fleets switched their accounts to the Swedish Club from the London and U.S. markets. According to Bain Dawes the accounts were insured at 20 per cent below market rates on offer in London.

On the cargo side of marine insurance, rates have been supported by the high cost of war risk insurance. Even so underwriters report that increased competition has weakened rates on the underlying cargo insurance account.

● Non-marine insurance. In the U.S. there have been 20 to 30 per cent increases across the board in U.S. property and casualty business, according to some reports. On high risk accounts such as pharmaceuticals, chemicals, oil companies and railways increases have been up to 300 to 400 per cent. This has been due to a large extent to the contraction in the availability of proportional reinsurance capacity, which has contracted dramatically, as reinsurance underwriters seek a more profitable flow of business.

● Lloyd's. Around 70 per cent of Lloyd's £2.3bn of premiums is earned in dollars. Two-thirds of its business volumes are largely accounted for by reinsurance business, mainly on U.S. accounts. There are signs that the membership, which provides the underlying capacity for the market, is not growing at a sufficient rate to allow for the sharp currency changes of sterling against the dollar. Already a number of insurance syndicates have written up to their premium income limits at Lloyd's, because of the windfall business volumes which have been created through conversion of dollar earned business into sterling.

● Reinsurance. In the company market reinsurers are driving hard bargains with direct insurers on terms arranged for proportional reinsurance contracts. Commission rates paid by the reinsurer to the direct insurer passing across a share of its business are subject to intense negotiation as reinsurers seek to gain a better deal. In addition, according to Mr Leslie McKinnes, assistant general manager of Mercantile & General, Britain's largest reinsurer, reinsurers are looking for companies to participate in poor experience by retaining a larger proportion of the risk and even seeking the direct insurer to accept loss participation clauses in contracts.

Mr McKinnes, speaking at a seminar organised by stockbrokers Kitcat & Aitken last November, predicted that the latest renewal season would show a reduction of proportional reinsurance capacity and Bain Dawes' reinsurance specialist Mr Paul Swain confirmed last week that this trend had indeed taken place in the latest renewal season.

As the proportional reinsurance market has contracted so the demand for excess of loss reinsurance protection has grown. In that particular market reinsurance rates have risen 200 per cent in some instances.

Earnings squeeze 'key to more jobs'

ABOUT 300,000 new jobs could be created over the next four years if the growth in earnings were roughly halved this year, the Treasury suggests in a paper to be published on Wednesday.

This would imply that pay would almost stand still in real terms for one year. However, the Treasury believes that after this sacrifice, living standards would quickly recover, because inflation would be lower and the Government would have slightly more scope for tax cuts.

The 58-page report is seen by the Government as an important justification for the claims of Mr Nigel Lawson, the Chancellor of the Exchequer, that key to solving the unemployment problem must be slower increases in real wages.

The paper strongly suggests that the Government would need to help the virtuous circle between pay and jobs by lowering interest rates and raising its borrowing target in cash terms, compared with what it would otherwise have been.

It could do this within its present strategy; lower inflation would reduce the pressure on its money supply targets and help to cut nominal interest rates.

Increased national output would, after a period, ease the Government's finances, and public borrowing could rise a little to keep to the same planned ratio with national income.

□ UNIONS representing Ford workers in Europe agreed yesterday to support industrial action "up to and including plant occupation" in the event of the company closing any of its European production capacity.

Mr Bob Lutz, Ford Europe president, hinted last week that Ford might close one of its plants because of widespread over-capacity in the European car market.

Unions issued a statement yesterday calling for a meeting with Ford at European level. They said they condemned Ford's refusal to meet unions to discuss ways of helping the company survive the present problem of poor European demand.

□ THE GUARDIAN newspaper is to build its own printing plant on a former docklands site in east London at a cost of at least £15m. The paper at present prints separately in Manchester and in London where it shares presses under a contract with The Times.

□ MANUFACTURERS in London and the south east of England report a significant revival in confidence for home and overseas markets, according to a report by the London Chamber of Commerce and Industry.

□ BRITISH AEROSPACE has won a contract from the Ministry of Defence to conduct studies on a new air defence missile which would travel at four times the speed of sound. The missile is thought to be a replacement for the Blowpipe and Javelin missile systems made by Short Brothers of Belfast.

□ TRIALS are to take place over a six-month period on a Ford 2.5 litre direct injection diesel engine for London taxis. If found acceptable, the engine would effectively break a monopoly on London taxi cab engines held over many years by BL, the state-owned motor group.

□ COMPANIES in the assisted areas of England received aid support from the Government worth £38.78m in the 1983-84 financial year. As a result, it is expected that 15,790 jobs will be created over the next four to five years.

□ GAS USERS will face a steep rise in prices with the extra revenues going to the oil companies which produce North Sea gas, if the Government blocks the British Gas Corporation's policy of gas imports, the corporations planning director, Mr Christopher Brierley, warned MPs.

□ PLANS FOR Britain's participation in Europe's space programme from now until the end of the century will be announced by Mr Geoffrey Pattie, Minister for Industry and Information Technology, tomorrow.

The UK commitment to the programme, prepared by the European Space Agency, is expected to include a part in U.S. plans to build a permanent manned space station at a cost of about $10bn.

Contracts and Tenders

Public Notices

Legal Notices

Personal

UK NEWS

Private legal actions may further delay BA share flotation

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

PRIVATISATION of British Airways, already delayed into the summer by the need to settle the U.S. anti-trust suit brought by the liquidator of Laker Airways, may be even further delayed by a series of private legal actions now emerging.

These involve individual litigants in the U.S. who believe that they were denied the benefit of cheap rates in the period after the Laker collapse in early 1982 and the emergence of other low-fare operators, such as People Express.

They argue that the other major airlines, including BA, put up their fares, rather than keep them at the low rates they introduced to compete with Laker, and that such action was in itself a breach of the anti-trust laws, depriving millions of passengers of cheap fares.

Lawyers in the U.S. not connected with the Laker liquidation case are seeking to consolidate those actions into larger "class actions" each involving several litigants. At least four such actions are now understood to be pending.

If only one such action comes to court and succeeds, BA and the other airlines involved (the same airlines as in the Laker case) could be liable for possible substantial damages of an unquantifiable amount. It would open the floodgates for other similar actions.

Conversely, if the initial action failed, that would end the matter. So far no date for hearings of such actions has been fixed.

Any out of court settlement of the Laker liquidator's case will thus not end BA's U.S. legal problems, since the prospective "class actions" are quite separate.

On the contrary, such an out-of-court settlement might even worsen the situation, since the "class action" litigants could claim that such payments indicated an admission of liability, despite any disclaimers BA might make. BA might then be obliged to resort to out-of-court settlements of the "class actions", with almost unknown results.

The persistence of such litigation in the U.S. would, as with the Laker liquidator's case, cast a further shadow over the prospective privatisation plans for the airline.

It is already clear that privatisation will not be possible in the present financial year, and that even the summer date might slip to much later in the year despite hopes of settling the Laker issue out-of-court within a few weeks as a result of the present intensive discussions.

Managers fear wave of militancy

By Brian Groom

THREE-QUARTERS of manufacturing managers questioned in a new survey believe that a resurgence of shopfloor militancy in British industry is likely. Half of them expect it in their own companies.

The survey was conducted by the magazine Works Management and will be published this week. Only a third of those who expected a general backlash thought their own companies had handled their workforces well enough to avoid it.

This fear of resurgent shopfloor power arises because most manufacturing companies have seen some easing of the recession. Workers see the chance of better pay rises, and feel less reason to co-operate with moves to improve efficiency.

Works Management surveyed only a small sample of 50 managers, but they are all key production managers across a broad spread of industry.

Last autumn, confidential figures from the Confederation of British Industry showed that the number of pay claims backed by industrial action had risen by 50 per cent over the past two years.

Department of Employment figures show that the number of working days lost because of strikes rose by nearly 30 per cent in the first 11 months of last year.

Funds sought to test jet lag pill

BY PETER MARSH

PILLS to combat the effects of jet lag could be on sale within a few years if trials due to start at Surrey University prove successful.

The university is about to launch an appeal to business organisations to raise the £20,000 needed to fund the tests.

Volunteers will be flown to the U.S. for three weeks of trials. They will holiday at their own expense while taking doses of the pills, which are based on a natural hormone called melatonin.

Before and after their trips, the volunteers will spend two or three days in the university's laboratories at Guildford to undergo psychological and medical tests to see if the treatment works.

Professor Vincent Marks, head of the university's division of clinical biochemistry, hopes that organisations such as holiday companies, hoteliers and multinational businesses will support the appeal on the grounds that they would benefit economically from any "cure" for jet lag.

The university hopes that an airline will supply free transatlantic tickets. Military organisations, which would welcome a way to ensure that soldiers are fully alert after a long journey across time zones, will also be asked to contribute.

For several years researchers have been intrigued by the properties of melatonin, which is secreted naturally by an organ in the brain called the pineal gland.

No one quite understands the function of the hormone, though it is thought to regulate the sleep process in some way.

In studies with rats, researchers in Australia think they have traced a link between the hormone and adjustments to the animals' natural biological clock. Rats dosed with the substance adapted more quickly to enforced changes in their day/night cycle. Thus they coped better with long periods in the dark.

This led the Surrey researchers to try out the technique with humans. The team, under Prof Marks, has made in its laboratories a batch of tablets, each containing 5 milligrams of melatonin, which have been given to a dozen or so individuals undergoing long air trips.

These people have taken the pills for two or three days before the journey and for three days afterwards. The results, says Prof Marks, have been "extremely promising"

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
Stationery Industry Exhibition—STATINDEX (01-385 1200) (until January 30) Olympia
British Toy and Hobby Fair (01-701 7127) (until January 30) Earls Court

January 30-February 3
International Swimming Pool and Leisure Show. (Trade: Jan 30-31) (073522 2875) Wembley Conference Centre

February 3-7
International Spring Fair: Gift Show (01-855 9201); Hardware and Housewares Show (0604 22023) NEC, Birmingham

February 5-10
Cruft's Dog Show (01-493 7838) Earls Court

February 10-13
International Men's and Boy's Wear Exhibition (021-705 6707) Olympia

February 12-14
Brighton International Catering Exhibition CATERBRIGHT (01-222 9341) Met Exhibition Hall

February 17-19
International Trade Show for Home Computers, Software and Leisure Electronics—LET (0923 777000) Olympia

February 19-21
Refrigeration and Air Conditioning (01-688 7788) Wembley Conference Centre

February 25-March 1
International Food and Drink Exhibition (01-486 1951) Olympia

March 5-8
International Powder and Bulk Solids Exhibition—(POWTECH) (01-672 2121) N.E.C., Birmingham

OVERSEAS TRADE FAIRS

Current

January 30-February 2
International Instrument Control, Automation Measurement and Testing Show—INSTRUMENTSIA (01-486 1951) Singapore

January 30-February 2
The International Building Materials and Systems Show (01-486 1951) Hong Kong

February 4-7
Middle East Electronic Communications Show and Conference—MECOM (01-486 1951) Bahrain

February 7-17
International Motor Show (Passenger cars)—PERSONENAUTO (020 44 09 44) Amsterdam

February 8-17
International Boat Show (01-486 1951) Helsinki

February 9-13
International Exhibition of Women's Ready-Made Clothing—Pret-a-Porter (01-439 3964) Paris

February 20-24
International Holiday Fair and Exhibition — FERIENMESSE INTERNATIONAL (01-891 2606) Vienna

February 22-27
International Spring Fair (01-734 0543) Frankfurt

March 5-9
Toy, Gift & Stationery Spring Show (01-839 5901) Taipei

March 7-17
International Motor Show. Geneva

March 12-14
Semicon Europa Electronics Show (01-353 8807) Zurich

BUSINESS CONFERENCES

January 28-30
FT Conference: Seminar on the City as a financial and trading centre (01-621 1355) Skinners' Hall, EC4

January 30-March 6
IPM: Flexibility in working time-cost effective initiatives for managers (0-946 1000) Embassy Hotel, W2

January 30
Chatham House: Indonesia at the start of the fourth five-year plan (01-930 2233) London, SW1

January 30
Institute of Management Consultants/Department of Engineering Production, Birmingham University: Managing the 1990s—A framework for business planning (01-584 7285) Birmingham University

January 31
Foundation for Science and Technology: Seminar on technology transfer within the EEC (01-608 0421) RSA House, London

February 4-8
Risk Research Group: Reinsurance practice (01-236 2175) Kensington Palace Hotel, W8

February 13
The Henley Centre for Forecasting: Foreign exchange rates—FX Analyses, forecasts and world business prospects (01-353 9961) Cumberland Hotel, W1

February 12
Brazilian Bank of Commerce: New opportunities for industry, trade and natural resources (01-499 0186) Hilton Hotel, W1

February 14-15
Risk Research Group: The future of Lloyd's (01-236 2175) Great Eastern Hotel, EC2

February 18-19
Open Computer Security: The International Data Security Conference 1985 (0273 672191) Dorchester Hotel, W1

February 20-21
FT Conference: The Third Automated Manufacturing Conference (01-621 1355) Intercontinental Hotel, W1

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FINANCIAL TIMES REPORT

The revival in trade between the East and West, which began in 1983, strengthened last year. The 'omens' are now good for calm on the commercial front

East-West Trade

Calmer commercial waters lie ahead

By DAVID BUCHAN
East Europe Correspondent

GIVEN THE myriad political differences between East and West, there can be no guarantee that politics will not again intrude into East-West trade. But at the start of 1985 the omens were good for a period of commercial calm.

The U.S. and the Soviet Union held their first high-level trade talks since 1978, with the Reagan Administration indicating that while it had no intention of going back on its new curbs on the sale of "strategic" goods to the Soviet bloc, general trade between the two superpowers should be increased to breaden the dialogue begun again at the arms negotiating table in Geneva.

At the same time, Poland at last reached an agreement in principle with its Western Government's creditors on debt arrears unpaid since martial law was imposed there three years ago This removed the last obstacle, on the Western side, to Poland joining the International Monetary Fund and effectively dismantled the last of Western sanctions against Poland.

Thus, Comecon countries, for the time being, have no real ground for arguing that the West is still playing politics with East-West trade, though many officials in Moscow, Warsaw, Prague, and Sofia might well, and do, argue that the East should reduce its vulnerability to any future Western economic leverage.

Such precautions include reducing Eastern financial debt to the West and, harder to achieve, reducing technological dependence on the West.

Even before this improvement in the political climate, the revival in trade between East and West, which began in 1983, strengthened in 1984. The recovery really came in western trade with Eastern Europe, which had declined in three consecutive years (1980-82), rather than in trade with the Soviet Union, where increases in the early 1980s sustained by high Soviet energy sales and Soviet investment purchases (pipeline equipment, for instance) tailed off last year.

According to the United Nations Economic Commission for Europe (ECE), Eastern Europe's exports to industrialised Western countries (members of the Organisation for Economic Development and Co-operation) turned up sharply by 9 per cent in real or volume terms in 1983 and by 17 per cent i nthe first half of last year.

The export drive was general throughout Eastern Europe, but most marked in the two countries that lost the most ground in the early 1980s, Poland and Romania, which made determined efforts to push their staple exports of coal and oil products, respectively.

Improvements

Faster growth in total western import demand also helped particularly in the U.S. and Japan. But since slower-growing Western Europe accounts for over 90 per cent of Western purchases of Eastern goods, Eastern Europe and the Soviet Union saw their combined share of total western markets decline slightly from 3.7 per cent in 1983 to 3.46 per cent in the first half of 1984.

There was some, but much less dramatic, improvement in Western exports to the six East European members of Comecon; after three years of decline (1980-82), bottoming out in 1983, Western sales to Eastern Europe rose 3 per cent in the first six months of 1984 in volume terms, with growth coming in exports of semi-manufactures and consumer goods, partially offset by lower engineering product sales.

This last category of Western exports has not prospered since the late 1970s when Eastern Europe started to cut back investment spending in an attempt (mostly vain) to protect personal consumption and public services.

Some analysts (the ECE, for instance) had forecast an upturn in investment early last year. But apart from badly controlled capital spending in Poland (where the central planners tried but failed to control capital expenditure) and in Romania — and neither country gave much business to Western firms — the rate of investment in Eastern Europe is at an almost historic low as a share (13-24 per cent) of national income.

The upturn may still come, however, in the new five-year plans (1986-90) which Comecon countries are now preparing. Herr Jurgen Michelfelder, in a recent study of the Eastern capital goods market done jointly for Stuttgart University and Ingmar Consultants, sees 1985 as an ideal year for Western engineering companies to start trawling their wares around Comecon capitals, in readiness for the 1986-90 plans. He underscores the importance of the Comecon market, particularly for West German industry.

Of total West German exports, 25 per cent of metal cutting machinery, 40 per cent of mining equipment, 10 per cent of textile machinery, 20 per cent of shoe and leather machines, and 10 per cent of valves go to the East.

The difficulty, however, is that many engineering companies are too small or specialised to spend the particularly large amount of time and money needed to develop their Comecon business and to deal with Comecon counter-trade demands, often in quite unrelated products.

Probably in no other sector is the general difficulty for the small, even medium-sized company operating in the Comecon market more acute. However, some Comecon countries have recently shown signs of dropping their traditional, almost snobbish, preference for the big "brand name" in the West.

Precisely the opposite trend has occurred in Western trade with the Soviet Union, where buoyant engineering sales helped boost Western exports in 1981-83. In the first half of last year, Western sales slumped by 9 per cent in volume terms, partly reflecting completion of the Siberian gas pipeline. The decline has since been reversed, but only because of grain imports to make good the 1984 Soviet crop shortfall.

Soviet exports to the West have held up, rising 2 per cent in volume in the first half of last year after 10 per cent and 7 per cent increases in 1982 and 1983. But the bulk of these sales (nearly 80 per cent) are energy, where prices have been falling on the world market, and only about a fifth are manufactured goods and raw materials where demand and price have improved, thanks to an upturn in the Western business cycle.

Thus, the Soviet Union may have been selling more to the West, particularly re-exported Middle East oil (earned chiefly from arms sales) to offset stagnating domestic oil production, but seems to have got a lower hard currency return for it.

However, when trade with the Third World is included to make up the Comecon balance of trade with non-socialist countries, the Soviet Union showed a large $9.9bn surplus in 1984 ($6.2bn in 1983) and Eastern Europe a collective surplus of $6.7bn ($5.5bn), according to the ECE.

In spite of the fact that many of Comecon claims on Third World countries are not easily realisable in cash, surpluses even approaching this magnitude put the Soviet Union and its six East European partners in Comecon in a comfortable financial position.

Prognosis

Clearly, most Comecon countries are now in a position to increase imports and improve domestic supply, without endangering the margin of financial safety they have painfully built up in the last few years.

Several factors still support a conservative prognosis on growth in East-West trade. The first and most important is the attitude of the Comecon countries themselves.

They still value highly, perhaps more highly than ever, what the West has to offer, which is generally of better quality and more promptly delivered than the goods they can get from their supply constrained economies. But they also draw from recent years the lessons that financial over extension to the West is dangerous, and that heedless purchases of Western manufacturing licences entail far larger imports of components, spare parts and semi-maunfacturers than originaly intended.

They also see that big Western-built turnkey plants carry no guarantee of a hard curency market in which to sell the resultant products.

Big contracts

The degree of caution, of course, varies. Bulgaria, Czechoslovakia, and latterly Romania, show no interest in borrowing more from the West; the others do.

The Soviet Union still has some very big contracts, for construction of chemical and plastics plants for instance, to dangle before the West, as Mr Mikhail Gorbachev, the senior Politburo member, was doing in London last year; while at the other end of the spectrum, Czechoslovakia says it intends to rely mainly on the East for its technology. Hungary is the boldest in both finance and trade, but even Budapest has reservations about overexposure to the West.

The result is that, even after the 1981-82 western credit squeeze that severely cramped East-West trade, the proportion of their total trade which Comecon countries do with each other is rising, from 52-55 per cent in 1981 to 58.6 per cent in 1983.

This trend may continue, not because the Comecon countries want to "circle their wagons" into an autarchic bloc (this was explicitly rejected at last year's Comecon summit), but for more "objective" reasons, as they say in the East.

The main reason, ironically stemming from that same Comecon summit which rejected autarchy, is that Moscow is demanding more East European investment in technology, capital, in some cases even labour, to help extract Soviet energy and raw materials from the increasingly inaccessible Siberian tracts where the main deposits now lie.

It is also demanding that Eastern Europe start sending more of its top quality manufactured goods east in payment for Soviet energy and raw materiasl, instead of reserving them for hard currency sale to the West. The signs are that the Soviet demands are being met in the long-term trade agreements, in some cases up to the year 2000, concluded by the Soviet Union with Poland, East Germany, Hungary, and Czechoslovakia last autumn.

Even before that, the Soviet Union was beginning to "cash in" on the surpluses it has been running with Eastern Europe for several years; in the first half of last year, East European shipments to the Soviet Union rose 6-7 per cent as against a 4-5 per cent increase in Soviet deliveries to Eastern Europe.

A second dampening factor on East-West trade is the new controls imposed on the sale to the Soviet bloc of what the West considers to be technology of potential military use. These controls, agreed by Nato countries and Japan in the Paris-based Co-ordinating Committee last year and coming into full effect this year, now cover a wider range of electronics, telecommunications, computers (see accompanying article).

A third brake on trade growth prospects is the difficulties Comecon still have in competing on Western markets in too narrow a range of goods which nofte attract Wester protectionism.

As regards manufactured goods, the Soviet Union and Eastern Europe still seem to be losing Western market share to the newly-industrialised countries of the Third World, the Brazils and Taiwans. This is despite their proximity to at least the West European market and grudging Western adaptation to Comecon demands for counter-trade.

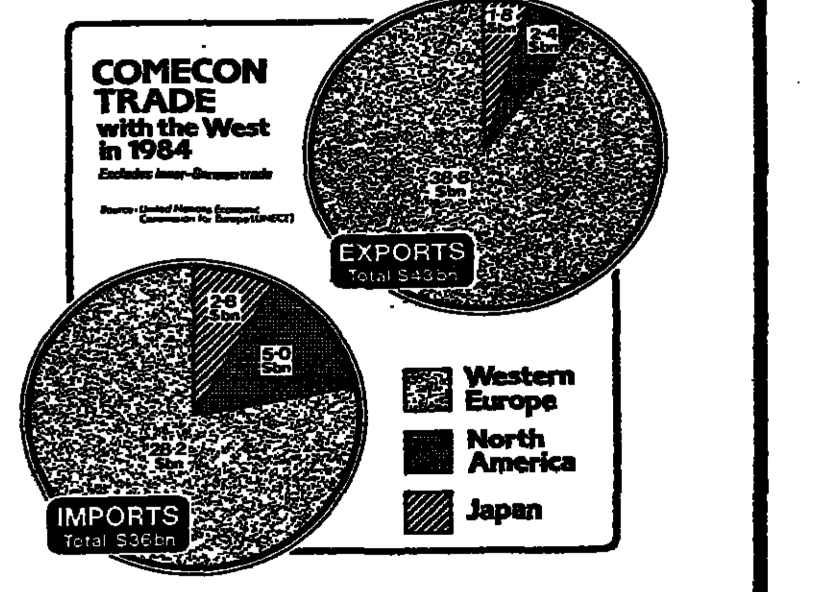
Such demands stem in an immediate sense from lack of hard currency. But, at root, counter-trade is a failure of marketing, shifting the onus of selling Comecon wares to Western companies.

Gradually, however, Comecon countries seem to be shaking up their foreign trade organisations, with Hungary in the van of this reform movement and the Soviet Union taking up the rear.

Blunted

The most important, because the bgigest, market for Comecon goods is Western Europe, where the lack of any general trade agreement with the EEC has undoubtedly blunted Comecon penetration. Just as the individual bid by Hungary to reach bilateral accord with Brussels seemed by mid-1984 to have ground into the sand, the Comecon summit in Moscow restated the East's desire to re-open discussions (defunct since 1981) with the EEC about a general agreement between Europe's two trading blocs.

This was followed up by an autumn visit to the EEC Commission in Brussels by the Bulgarian trade minister representing Comecon. But the two sides remain sharply divided about the nature of any EEC-Comecon accord. Comecon wants political recognition and concrete benefits in Western markets and the EEC sees no benefit in in any way enshrining what it regards as Soviet hegemony over Eastern Europe in Comecon, particularly when Comecon, without a common commercial policy like the EEC, cannot of itself reciprocate any tariffs or quotas concessions the EEC might offer. That gap still seems too wide to be bridged.



Trade balance with 23 industrialised western nations

($bn)

	1981	1982	1983	1984*
Bulgaria	−1.03	−0.75	−0.9	−0.8
Czechoslovakia	+0.32	+0.38	+0.56	−0.8
East Germany	−0.12	+0.68	+0.32	+0.6
Hungary	−0.85	−0.72	−0.36	0
Poland	−0.86	−0.01	+0.27	+0.8
Romania	+0.36	+0.8	+1.37	+2.5
Soviet Union	+0.23	+0.67	+1.82	+3.8

* Extrapolation of January-June trends
Source: UN Economic Commission for Europe, using Western data which generally lower Comecon countries surpluses than Eastern statistics. Cited in text of this survey

Waiting for the new lists

Western controls
DAVID BUCHAN

THIS YEAR sees the start of a wider and tougher regime of Western "strategic" controls on sales to the Soviet bloc. The 15-member governments, Nato basically plus Japan, of the Paris-based Co-ordinating Committee (CoCom) are in the throes of publishing new national export control lists; the U.S. and the UK, for instance, did so this month.

The common denominator of these lists is the agreement with which CoCom members wrapped up their 1982-84 review of the Western embargo lists.

The impact, however, began to be felt in the second half of last year. Hungary and Bulgaria found that western companies abruptly had to suspend tenders to supply those two countries with sophisticated new telephone exchanges.

For all the complaints from frustrated Western sellers and criticism from would-be Eastern buyers, it is worth remembering that CoCom controls only affect a small share of total East-West trade, perhaps less than 5 per cent, though in certain sectors, like computers, their impact is much greater.

The aim is to prevent transfer of arms, nuclear energy technology with application in making weapons, and a range of "dual use" civil technology and know-how of probable use to Warsaw Pact weapons designers. Obviously, judgment on the last category varies.

As in previous CoCom reviews, the more security-conscious U.S. Government pushed to widen the list of controlled "dual use" items; its more comencially-minded European and Japanese allies resisted to varying extents, and the result last year was a compromise.

Two other general factors will affect the exact impact of the new controls. Legal, as well as illegal, loopholes exist in the Conom net. In a few thousand cases a year, member governments argue that sale of a particular itm, though on the embargo list, is for bona fide civil use (like a computer for a hospital or bank) or is available to Soviet block countries indigenously or from nonConom country sources.

Such "exceptional" sales are either granted at "national discretion" by individual governments, or in the case of more sensitive items by a government going to the Paris committee and winning approval of all other 14 member countries.

The point about this fairly flexible procedure is that it can be varied, not only on the merits of a particular sale, but also according to the prevailing political climate.

CoCom, essentially the U.S. by use of the right of veto that all members have, has drastically curtailed exceptional sales to the Soviet Union and Poland since the early 1980s on patently political grounds. This could reverse if the political climate changes.

On the other hand, some European neutral countries, Austria, Switzerland and Sweden, which are all key East-West traders, have now come under strong U.S. pressure not to let their territories be used to undermine the CoCom embargo. Grudgingly, and certainly unofficially, these governments seem to be partially co-operating.

The biggest change in the actual CoCom rules is in the broad category of electronics, partly because the old rules in the key subcategory of computers were 10 years out of date and partly because it is in electronics, the basis of much modern weaponry, that the West has the widest lead over the East. The three most significant changes are on:

● Computer Hardware. Most home computers are now freed from licensing requirements, while controls have been tightened (by making sale conditional on unanimous approval of all 15 CoCom members) on sophisticated machines, particularly so-called "super-minicomputers" especially hardened for outdoor use (in, say, the oil industry) and thus of potential military use.

● Computer software. This is subject to some controls for the first time. Western programme writers may not supply software for embargoed Western hardware, though they may do so for certain "Western lookalike" machines made in the Soviet bloc.

● Telecommunications. Telephone exchanges with "stored programme control switching systems" (considered to be of help to Warsaw Pact command and control) will not be sold to the Soviet bloc before 1988. This arbitrary date is the result of a horse-trade between Washington and its allies.

Would-be West European sellers of telephone exchanges have been telling East European countries to hang on until 1988, but all that is decided is that telecommunications will be reviewed, not necessarily liberalised, then.

In fact, the embargo review procedure is likely to be changed at a meeting next month in Paris of high-level officials who will probably endorse the sensible suggestion that CoCom should review its list continuously, dealing with a third of items each year instead of trying to tackle 100 per cent of the items every three years.

This procedure, while better matching the continuously changing technological balance, must raise d oubts of how long some controls agreed in 1984 will last.

The Paris meeting will also have to tackle one issue which is ancillary, but of relevance to trade with Comecon. This is the logjam of embargo exception requests for sales to China, which still remains nationally a target of the CoCom embargo. Until this is resolved, potential Western sellers of high technology to the Soviet bloc may find lengthy delays before they get a "yea" or a "nay" on their deals.

East promotes high-tech

AT their Moscow summit last June, the first on purely Comecon business for 15 years, Soviet bloc leaders criticised Western export controls, reiterated their desire to continue trading with the West, but announced their intention to improve their own high technology. The communique said "special attention" would be given to development of "electronics, microprocessors and industrial robots," all areas where the East knows it has much ground to make up.

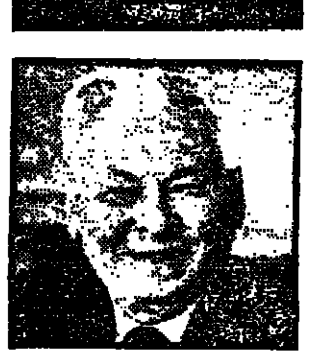
Individual countries have taken the same tack of publicly urging the West to drop its controls, but at the same time laying the ground for more self-reliance. Czechoslovakia, which is a Gatt member, has, for instance, complained to the Geneva-based trade organisation that Western controls constitute illegal trade discrimination under Gatt rules, while also accelerating development of its own electronics sector and apparently protecting the lower end of its computer range from Western imports.

However, the only public indication of how Comecon countries are going to launch themselves jointly into the electronics revolution has come in communiques about the new 15-year bilateral economic agreements which the Soviet Union is in the process of signing with its East European partners. East Germany, Hungary, Czechoslovakia and Bulgaria have all developed some capacity in aspects of electronics and, particularly in the case of Hungary which even sells some computer programmes to the West, software. The Soviet Union itself has a much bigger electronics industry, but still needs components from some of its more industrially-sophisticated East European allies. A clearer indication of Comecon's forthcoming effort in this sector should come when member countries publish their 1986-90 plans later this year.

East—West Trade 2

Economic sanctions by the West are being eased as the political climate improves. Below and on the following page are progress reports on trade with seven Comecon members.

USSR



President Chernenko

WITHIN THE last month the U.S. and West Germany have both had serious talks with the Soviet union on prospects for improved trade. This is a sign of a warmer political climate. Enthusiasm for economic embargoes is clearly ebbing.

Yet the curtailment of U.S. grain exports to the Soviet Union by President Carter in 1980 and the attempt to prevent the West Europeans helping to build the Urengoi gas pipeline from Siberia to Western Europe have left a deep mark. The Soviets are even warier than before on relying on foreign suppliers.

This is ironic since such embargoes are unlikely to be used again. The abortive attempt by Washington to push the West Europeans into a boycott of additional Soviet gas "did greater damage to the Western Alliance than it could ever have have inflicted on the Soviet Union," said one diplomat.

In any case the key Soviet import — grain for animal feedstuffs — was shipped freely once President Reagan had been elected. The poor grain harvest last year means grain imports of up to 50m tonnes at a cost of some $7-8bn.

This trend is likely to continue. The Soviet food programme means that the Government is committed to increasing the supply of meat, milk and eggs to the consumer whatever the state of the grain harvest. Herds are not being cutback as they were in the past.

If agricultural imports are likely to remain buoyant, the outlook is less optimistic for industrial goods. Western exports to the Soviet Union dropped 9 per cent in the first half of last year compared to a rise of 2 per cent the year before. There were lower sales of iron and steel products, notably pipes and tubes used in the major pipeline projects.

In the first nine months of last year the Soviet trade figures showed a surplus in commerce with all the three categories into which it divides the world: socialist, capitalist and developing. This is all calculated in roubles so that the hard currency position is less clear.

Exports to the West were roubles 15.8bn compared to imports of roubles 14bn. West Germany, once in profit in its trade with the Soviet Union, ran a deficit of $883m in the first ten months of last year. Slack business in the middle east makes western companies look with some interest at projects in the Soviet Union. In terest is also being shown in large turnkey projects worth $500m each.

The Soviet would like to import more from eastern Europe but the problem is that the high quality goods the Soviets want to buy are not available in sufficient quantity, they cannot easily substitute for imports from the west.

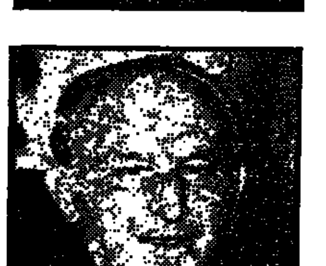
Under pressure

The Soviet Union's main exports, oil, gas and gold, are all under pressure on price. Early this year there were some reports of the Soviet shaving their oil price on the spot market, to sustain sales. But this should not constrain the Soviet ability to import.

The real problem is that Western Europe and Japan do not want to buy oil and gas in the volumes once expected. Even if the price of oil falls, the Soviets still benefit from the rise in the real purchasing power of the dollar in which oil prices are denominated.

Patrick Cockburn

Bulgaria



President Zhivkov

AFTER A PERIOD of growth in the early eighties, Bulgaria's trade with the West is going through a period of retrenchment. The hopes of Bulgarians and Western businessmen alike raised during the 1983 trade boom with the West, when the Bulgarian market was the second fastest growing market in the Comecon after East Germany, have been replaced by more modest expectations.

The Bulgarians have not lost their enthusiasm for greater trade ties with the West but a combination of factors have contributed to the shrinkage in Western trade. The capacity of the Bulgarian market to absorb more imports was stretched at a time when economic reforms demanded internal readjustments.

At the same time Western controls on technology transfers to the Eastern bloc and a poor international climate reduced opportunities for trade and encouraged the Bulgarians to look more to their traditional partners in the Comecon.

Bulgarian officials were clearly piqued by the British decision denying them the System X telephone exchange developed by Plessey and GEC which they wanted to buy. The two companies decided to drop their bid to sell the system last July after agreement was reached in the Paris-based Co-ordinating Committee (CoCom) by the Western allies to embargo sales of sophisticated telecommunications switching gear to the Soviet bloc.

The Bulgarians have since sought unsuccessfully to find another source for similar equipment. The experience cannot have been gratifying.

The shrinkage in trade with industrialised Western countries is clearly noticeable in 1984. According to figures fro mthe International Monetary Fund exports from OECD countries to Bulgaria in the Comecon.

Bulgaria's trade turnover is planned to grow by 4.5 per cent in 1985 but the increase will almost be completely absorbed by its Comecon partners. Whereas trade with the Comecon accounted for about 78 per cent of Bulgaria's trade in 1983 with the Soviet Union alone accounting for about 57 per cent, targets for this year are 82 per cent with the Comecon and 63 per cent with the Soviet Union. OECD and developing countries will have to battle for the remaining 18 per cent.

In 1983 the OECD's and the Developing countries' share was 22 per cent with the former taking about 12 per cent. Within the new targets competition is likely to prove hard for Western companies.

There are still plenty of opportunities. Western companies were reported to have secured some $200m-worth of business during the Provdiv technical fair last autumn, a small proportion of the total $2.5bn said the Bulgarians to have been signed up during the week, but many Western exhibitors declared themselves satisfied with the results.

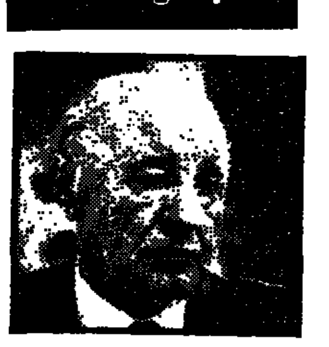
Bulgaria's largest trading partners among OECD nations remains West Germany with trade worth $283m in the first eight months of 1984, followed by Italy, $71m for the first seven months, then by Austria $71m, and Switzerland, $69m, for the first eight months.

Japan has fallen back since 1983 with trade worth $59m with Britain marginally improving its performance with $46m.

Bulgaria's expanding economy and low foreign debt continue to make it an attractive market. Bulgarians are tough negotiators and there is still plenty of red tape but the country has a good reputation for paying on time and in cash. But in the end prospects for greater Bulgarian-Western trade will depend on broader considerations and improvements in the international climate.

Patrick Blum

Hungary



First Secretary Janos Kadar

HUNGARY'S NEW management and wage reforms introduced last month are among the most wide-ranging since the New Economic Mechanism was launched in 1968. They aim to achieve a greater degree of company self-management and wage differentials than in any other Comecon country.

Managers in 50 per cent of Hungarian enterprises are to be elected, subject to industry ministry approval, by newly-formed company councils representing management and employees.

The councils, which resemble the supervisory boards of West German companies, will determine a company's "strategic" goals including investments, products, pay and may recommend closure if all else fails.

In other 25 per cent of companies, mainly smaller ones, managers are to be directly elected by employees. The remaining companies—operating in defence, essential goods and services and so-called monopoly trusts such as oil and aluminium —will continue to be under direct ministerial supervision.

Last year Hungary slightly exceeded its modest goal of a 1.5 per cent to 2 per cent growth in national income—roughly equal to GNP—with industrial production rising 2.5 per cent to 3 per cent compared with a target of 1.5 per cent to 2 per cent.

Agricultural output rose 5 per cent while investments were higher than planned. Real per capita income, however, went up by only 1 per cent.

The target of a $600m to $70m hard currency trade surplus and a $300m to $400m balance of payments surplus was said to have been met. The net debt stood at some $4bn compared with $4.5bn at the end of 1983 while reserves were $2bn.

In the current year national income is set to grow by 2.3 per cent to 2.8 per cent while industrial production is to rise by 3 per cent and agricultural production by 1 per cent. Real income is to grow by a modest 1.5 to 2 per cent.

In overall growth terms Hungary now takes last place among Comecon countries but in the coming five-year plan from 1986 to 1990 there is to be a spurt in national income growth, with an annual rise projected at 3 per cent according to Mr Lajos Faluvegi, Deputy Prime Minister.

Industrial production is also expected to increase at an annual rate of 3-4 per cent while agriculture is to grow by 2 per cent annually. Productivity, he said, is to expand by 4 per cent to 5 per cent annually as a result of the latest reforms.

While the company councils will be responsible for broader corporate strategy managers are companies much as before on a daily basis.

Concurrent with these changes to increase participation by employees in state companies, Hungary has begun wage reforms which are to allow considerable differentials in profitable companies. This device is designed to both attract labour to more efficient firms and to base wages on performance and not mere attendance as in the past.

Plans have also been unveiled to turn some Hungarian foreign trade organisations into trading houses taking part in production, company organisation, financing and product development of the domestic companies they represent. Until now the FTOs have had virtually no say in what domestic companies produce.

Changes

As of last month some 250 Hungarian companies conducted their own foreign trade and in the engineering sector half of the foreign trade turnover is handled by the producers themselves. Necessity fostered these changes as Hungarian state companies were inherently complacent together with their workers.

Innovation was much discussed but seldom practised and industry, as in other Comecon countries, took months to gear up for production in the first half of the year and then spurted to complete delayed work in the last quarter.

In the same period investments and real wages are to level off or increase only slightly—more belt tightening for the Hungarian consumer. Throughout the next five year plan Hungary plans to achieve an annual surplus of $600m to $700m on its hard currency trade account.

Beginning next year he explained it is planned to import more machinery and technology from the West.

According to this scenario, Hungary's external debt is to be substantially reduced between 1988 and 1990 with the debt service imposing a smaller burden. Several hundreds of millions of dollars are expected to be freed annually to plough back into the economy which Mr Faluvegi said could result in a strong 4 per cent annual growth in national income.

Leslie Colitt

Romania

President Ceausescu

THE COLD weather got Romania off to a bad start this year, with severe cuts in coal and water-generated electricity in a country whose broad industrial base is a heavy energy user and whose external finances are much inuenced by oil import levels.

This year, however, will not see any let-up in President Ceausescu's drive to pile up as big a hard currency trade surplus as possible so as to pay off as much foreign debt as possible. The trade surplus was pushed to $1.41bn in the first three quarters of last year, with exports, according to Mr Ion Stanciu, a senior trade official, rising 8-10 per cent, and non-oil imports increasing 3-5 per cent, and bigger trading increases in oil and oil products.

Romania's best export markets proved last year to be Western Europe, and the fast-growing U.S.

Thus, even after payment of debt interest, the country is running substantial current account surpluses ($902m in January to September last year compared with $922m in the whole of 1983). By the end of last year, the gros debt was down to $7.5bn and should come down further in 1985 in which, says Mr Stelian Marin, international director at the Finance Ministry, $1.5bn in principal is due for repayment.

He puts the net debt much lower, because Romania is owed substantial amounts ($2.3bn at September 1984) by Third World countries which have bought capital goods—a substantial slice of Romanian exports—on credit.

Given the difficulty of collecting this money from financially-strapped countries, particularly in Africa, it is doubtful how meaningful the lower net debt figure of just over $5bn is. However, the oversize refining and petrochemical industry (capacity still over 30m tonnes a year) can use payment in kind from those countries able to settle their Romanian bills in oil.

The casualty of this externally-orientated strategy has been, as usual, the Romanian consumer. Romanian statistics, highly suspect in this area, show that the level of consumption in 1983 was 1.9 per cent above that in 1980; this hardly squares with the increase in rationing during that period, even in petrol of which Romania is the only major producer in Eastern Europe.

The lot of the average Romanian may have improved last year, but not by the 2.4 per cent targeted increase in personal consumption, and any further improvement this year, given the dictates of the external financial strategy, will be small.

Yet only two months ago, President Ceausescu at the congress of the Romanian communist party set targets for 1986-90 described by Wharton Econometrics as "outrageously optimistic." These goals, the first (because of the congress's timing) to be announced by any Comecon country for the next five year plan, include average annual growth for net material product (roughly, gnp minus services) of 7.6-8.3 per cent, industrial output of 10-10.6 per cent, and of agricultural production of 5.4-5.8 per cent.

Idiosyncrasies

These contrast with 1980-84 rates of material product growth averaging less than 4 per cent on Western estimates and not much less even on Romanian figures. There would be more foreign confidence that Romania might at least approach the ambitious 1986-90 goals, were it not for idiosyncrasies of the Ceausescu style of economic management.

Evidently reacting against several years (1981-83) of International Monetary supervision, Mr Ceausescu announced last November a 20 per cent revaluation of the lei against western currencies and cuts in domestic interest rates, exactly the reverse of the policies which the IMF had urged and which, for a time, the Bucharest Government had grudgingly accepted.

The revaluation was justified in terms of requiring greater export efficiency from Romanian companies, though it is hard to see it making goods more price competitive in foreign markets.

Some outside analysts find it difficult to believe that the Government in the years ahead will manage to square the circle with simultaneous improvement in trade and domestic consumption and further reduction in the debt.

Wharton Econometrics believes that by the late 1980s, the country's hard currency current account will dip again into the red in order to finance the rate of growth which Mr Ceausescu wants, and as a result the debt will start to rise again.

David Buchan

East Germany

President Honecker

EVEN THOSE who are sceptical about Comecon statistics have to admit that East Germany must be doing something right. It again led the Comecon growth chart last year with a 5.5 per cent expansion in national income—over 1 per cent more than planned—representing a record 11bn Ost marks rise to OM 221bn.

This year's target for economic growth is again 4.4 per cent. The economy got off to a difficult start in bitter cold however which hampered coal supplies to power stations. The East German consumer is finally to be given a better break with retail sales set to rise 4 per cent although this is likely to be absorbed by built-in, although unacknowledged, inflation.

Industrial production is to rise 3.8 per cent this year after a 4.5 per cent increase last year which was well up on the 3.6 per cent target. After several years at a low level, investment is to rise 14.3 per cent this year as the need to renew existing plant and equipment can no longer be postponed.

Foreign trade is to expand by a more ambitious 8 per cent but Western traders will continue to encounter a reluctance to buy products which are not absolutely essential to save energy or rationalise production.

It is no surprise that Western bankers again rank East Germany as Comecon's best credit risk after the Soviet Union for the East Germans service their debts like clockwork.

A recent Euroloan to East Berlin of $150m was quickly raised to $400m with interest one per cent above Libor. It was made possible by a series of West German Government guaranteed loans re-establishing East Germany in Western eyes as a sound risk.

East Berlin has used these loans to lengthen its short-term maturities and to build up currency reserves. According to statistics from the Bank for International Settlements, East West Germany were $4.2bn last Germany's reserves outside of June, against of almost $2bn over 1983. Net foreign debt dropped from $5.8bn to $4.2bn.

East Germany's debt to non-reporting banks, however, is unknown as are its supplier credits. The country's cumulative trade debt to West Germany last year sank to DM 3.6bn—the lowest since 1978.

East-West German trade last year is likely to have exceeded the record DM 15.2bn of 1983. Dr Franz Roesch, head of the Department of Trade with East Germany, noted that East Berlin has redressed its large 1983 trade deficit with West Germany which resulted from substituting West German goods for those from other Western countries.

In addition East Germany was reselling products imported from West Germany in its claring trade to obtain hard currency in other Western markets.

Dr Roesch said that he is rather optimistic for inter-German trade prospects this year, including West German deliveries of durable consumer goods and above all investment goods, such as environment protection equipment.

East German foreign trade will face the daunting problem of supplying the Soviet Union with higher quality consumer goods and high technology products in order to continue obtaining the current amount of Soviet oil, 16m tonnes annually, and larger quanities of gas.

The Government has issued an unpublished decree on the main areas of science and technology to be stressed up to the year 2000 including co-operation with the Soviet Union.

A new scientific and technical plan outlines where research and development is to be concentrated: more rational energy utilisation, lignite processing, metallurgy, chemicals, glass and ceramics, microelectronics, robotics, biotechnology and automatic manufacturing centres. As in the past, West Germany wil lplay a key role in any technology transfer to East Germany.

Leslie Colitt

Poland

General Jaruzelski

WITH POLISH priorities still set at keeping industry turning over on a day-to-day basis, with less regard to forward-looking capital investment or even replacement of machinery, the bulk of hard currency import spending is going on purchases of raw material and components.

In the first 11 months of last year 81 per cent of the hard currency import bill has spent on this sort of supplies; thus, Western exporters with long-established contracts and an essential product were not complaining. They were also not displeased that due to the continuing credit squeeze on Poland, payment was more or less on a cash basis.

But companies hoping to sell Poland capital goods will still have to bide their time. Between January and November 1984 a mere 7 per cent of Polish import spending went on this category, and the value of this at $276m paled against the billions spent on plant in the 1970s.

However, Polish enterprises are crying out for new machinery, and the planners are hoping that they will be able to lay greater stress on the necessary capital spending in the 1986 to 1990 period. This could be facilitated by any new western government credit for which the Poles would be able to make a case.

The prospects here are improving as the Paris club debt talks have made progress with both sides initialling a framework agreement on rescheduling amounts which fell due between 1982 and 1984. Meanwhile last year even consumer goods for which Poland paid $480m up to November outstripped capital equipment imports.

Debt renegotiation notwithstanding, the major effort to pay for imports is going to have to be made by Poland's exporters and here the picture is complex, if not to say bleak. Last year export earnings in excess of $5.5bn still fell $390m short of targets.

This would have been worse if it had not been for record exports of Polish coal which at near 43m tonnes over the year were the best since the war. Exports of other raw materials like sulphur and copper were also high and helped to produce a 1984 trade surplus of $1.7bn.

Sales of manufactured goods in the engineering and machines sectors, however, slumped for the second year in which the planners had set high growth targets in a row. At the end of November with more than nine-tenths of the year gone this sector had fulfilled a mere 60 per cent of its annual target and showed up the weakness of the Polish economy as a whole.

Quality has dropped, and existing financial incentives, Poland's exporting companies argue, do not compensate for the effort required to make the sale to the West. The zloty, despite a 23 per cent devaluation last year and a further 11 per cent change on January 1 this year, is still thought to be overvalued in dollar terms.

The problem facing the country is that raw material exports can provide no more growth. If Polish sales to the West are to double by the 1990s, as debt service needs require, then the extra earnings will have to come from manufactured goods and recent performance presents little hope that this can be done. Coal sales can go no higher.

At the end of this winter stocks may actually be lower than they were in the winter of 1978-79 when the country almost ground to a halt for lack of coal-based energy.

Chris Bobinski

Czechoslovakia

First Secretary Gustav Husak

SINCE 1980 Czechoslovakia has run a hard currency surplus which it has largely devoted to increasing reserves and reducing debt to the West, rather than increasing imports from the West. While prudence remains the Prague authorities' watchword in their dealings with the West, there are signs in 1985 of change towards buying somewhat more badly needed capital equipment and technology.

According to the State Bank, Czechoslovakia ended 1984 with a hard currency trade surplus in the range of $800m. This was slightly down on the 1983 surplus of nearly $1bn, because although exports in volume terms rose considerably faster than imports, actual returns were diminished by poorer export prices.

Precise levels of reserves and debt are regarded as state secrets, but Western estimates put the country's net debt at somewhere in the $2-$2.5bn range last year.

The Prague planners have set 1985 growth at last year level of just over 3 per cent. The key question is whether this growth will be directed into exports at the expense of domestic consumption and investment, as in the last several years.

Czechoslovakia, according to Western analysts, has been mortgaging its long-term competitive position by failing to modernise its industry, in order to bolster its short-term financial security. Some Western studies, citing Czech statistics, have shown that Czech capital stock is seriously ageing and that, for example, the number of products judged to be of "world technical and economic level" dropped from 5 per cent in 1970 to 2 per cent of total output in 1980.

Mr Jaroslav Kroh, general manager of the State Bank, however, says "Western economists make the mistake of assuming that progress is tied to the level of imports from the West." For Czechoslovakia, this is just an additional source to domestic and Comecon technology, he says.

The authorities are still conserving foreign exchange, Mr Kroh says, not primarily to reduce foreign debt as in 1982-83, but to maintain pressure on Czech companies to make better use of their existing capacity. The State Bank, however, "now has the money to be more flexible" about imports, Mr Kroh says.

He cautions that the bank's general policy is to reduce debt further, to repay old loans out of current earnings without any refinancing, and to ensure any new Western credit is carefully earmarked for specific purposes.

Opportunities for Western business, to a large extent, reflect structural change in the economy, with sectors like electronics and high-grade chemicals and plastic getting preferential credit for expansion, while older industries like iron, steel and coal stagnating or actually falling.

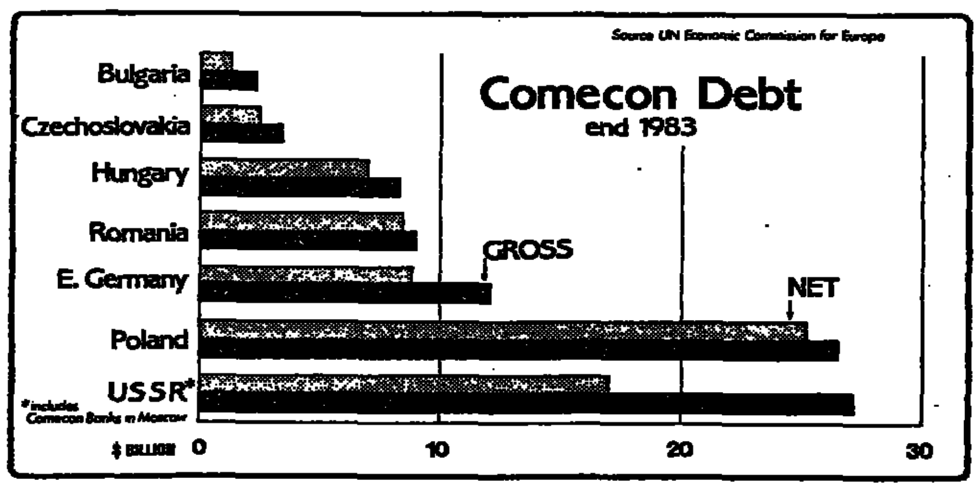
While general industrial output this year is set at around 3 per cent, the planners are hoping for machinery production to rise by 6 per cent, electronics 10 per cent and pharmaceuticals by 7 per cent.

Prague complains that, despite recent export successes in the West, it still faces unwarranted protectionism in the EEC, particularly in the form of quotas on its glass, ceramics, furniture, shoes, and ferro alloys shipments.

As a founder member of the General Agreement on Tariffs and Trade, it feels it deserves better from Brussels. However, its preferred route of redress is through Gatt in Geneva, rather than seeking a general trade agreement as Hungary has been trying to do, with the EEC.

For its part, the EEC is disinterested in negotiating any further sectoral agreements with Czechoslovakia, apart from the unilateral restrictions on steel and textiles which it already imposes on Czechoslovakia. Until this impasse is broken, it is hard to see a major expansion in trade with Western Europe.

David Buchan



Now more courted than courting

Comecon financings

DAVID BUCHAN

POLAND APART, Comecon's financial worries, severe until a couple of years ago, seem to be almost over. The Soviet Union and Eastern Europe as a whole have chalked up sizeable trade, and therefore current account surpluses in convertible currencies.

As a result, they have been generally able to reduce their indebtedness, and rebuild their assets in western banks, while those Comecon countries still in the market for fresh financial loans have once again found themselves more courted than courting; terms have improved and many loans have been oversubscribed.

The bedrock of this improvement has been healthy trade results. Estimates can differ quite widely, depending partly on whether eastern or western statistics are used.

Wharton Econometrics puts the trade surplus of the six East European members of Comecon at $6.3bn last year (compared to $6.2bn in 1983) and their hard currency current account surplus at $2.3bn ($2.2bn), while it estimates that Soviet surplus on trade with non-socialist countries at $7bn last year ($5.8bn).

According to the United Nations Economic Commission for Europe (ECE), Eastern Europe recorded a $6.7bn trade surplus with market economies last year compared to $5.5bn in 1983 and the Soviet Union a $9.9bn surplus ($6.2bn in 1983), giving Eastern Europe a collective $3.4bn current account surplus and the Soviet Union a $10bn current account surplus, with its invisible earnings offsetting its debt servicing. Not all, however, of these surpluses are particularly usable.

Comecon countries have had some of the same payment problems as Western countries with developing countries, and some of the claims they have on the Third World are not exactly liquid.

Another striking feature of the past two years has been the rapid rise of Comecon country assets in those Western banks which report to the Bank for International Settlements (BIS). Eastern Europe's assets in BIS reporting banks have risen from $4.4bn in 1982 to $9.5bn by the middle of last year, while Soviet assets have increased from $6.7bn to $11.1bn over thesame period.

Record level

This level for Comecon assets in Western banks of $21bn is in fact higher than recorded at any point in the 1970s, and it probably reflects Eastern countries, feeling that they need to hold a higher level of reserves than other countries with access to international financial institutions in time of balance of payments crises, though Hungary, and Romania (and maybe Poland fairly soon(are members of the International Monetary Fund.

At the same time, of course, interest on these assets reduces net interes outflows, and as Comecon central bankers frequently point out these days, net debt can be lowered by building up assets as well as paying off liabilities.

So, while gross debt has been declining for the Soviet Union and most of Eastern Europe, except for Hungary (which in relation to its size was by far the biggest borrower in 1984) and Poland (able to pay only a portion of interest on its debt), net debt has fallen faster.

According to the ECE, Eastern Europe's gross hard currency declined from $62.8bn in 1982 to $61.5bn in 1983, net debt from $56.9bn to $53bn over the same period, while the gross debt of the Soviet Union and the Moscow-based Comecon banks declined from $28.6bn to $27.1bn and their net debt from $18.3bn to $17.1bn.

Despite higher borrowing by many Comecon countries last year, the same trend seems to have continued in 1984.

This has had the effect of easing the debt servicing burden, though again with the important exceptions of Poland, Hungary and perhaps East Germany. Generally, reduction in net debt and increases in hard currency export earnings (or both in the case of some countries) has offset any impact of higher interest rates last year.

Thus, the ECE calculates that hard currency interests payments as a ratio of Eastern Europe's convertible currency export earnings fell from 16.8 per cent in 1983 to 14.7 per cent in 1984 for the region as a whole For the Soviet Union the ratio fell from 3.1 per cent to a nugatory 2.8 per cent over the same period.

There are other broader reasons why the relative credit ratings of Comecon further improved, and western lending to the region increased, in 1984. The debt crisis of the early 1980s first broke in Eastern Euprope, and then in Latin America and elsewhere; but Comecon countries were also the than has proved possible in the adjusted at a much faster pace

Comecon borrowing

On the Euromarkets in 1984 (Jan-Nov) ($m)

	Bank creditors of 1 year or more	Bond issues
Bulgaria	4	—
Czechoslovakia	9	—
East Germany	563	—
Hungary	1,127	41
Poland	—	—
Romania	—	—
Soviet Union	926	75
International Investment Bank	140	—

Source: Morgen Guaranty Trust Co

first to tighten their belts and Third World.

In these circumstances, Comecon countries generally seem a much more attractive risk to Western bankers, particularly as they still pay relatively high margins.

Taking a weighted average of spreads on loans of more than $30m and of more than three years' maturity, Eastern Europe was paying 112 basis points over Libor in 1983 (compared with a 64 basis spread for Western borrowers), and 69 basis points in the first four months of last year (this was the same as borrowers in the Organisation of Petroleum Exporting Countries, but Opec still seven points above the margin charged Western borrowers).

Despite their increased creditworthiness, however, some Comecon countries showed little or no interest in taking new eurocurrency credits from the West last year. Bulgaria, Czechoslovakia and probably even Romania (whose external finances have recovered dramatically from the country's 1981-82 near-default) could almost certainly have borrowed in the euromarkets last year, but instead chose to continue their strategy of reducing indebtedness and what they see as unwelcome Western financial leverage over their economies. Poland, for its part, would love to have borrowed, but could not.

This left three countries—the Soviet Union, Hungary, and East Germany—and one institution — Comecon's International Investment Bank (IIB) which borrowed $140m, its first such move for many years—to account for all but a fraction of the $2.7bn eurocurrency bank credits taken by Comecon last year.

A feature of this borrowing was the diversification of the financial instruments used by the East, including syndicated and club loans (including some denominated in European currency units, ECUs), floating rate bonds, cofinancing with the World Bank, as well as more traditional use of guaranteed credits and credit lines.

Hungary was the chief innovator here; of the three big Comecon borrowers last year on the capital markets last year, it was of course the only member of the World Bank and, for that matter, the IMF. Thus, in the first 11 months of 1984, Budapest raised $1.1bn in eurocredits and $41m in bonds.

In the same period, the Soviet Union raised $926m in credits and $75m in bonds, and East Germany $563m in credits; according to Morgan Guaranty estimates. Both Hungary and East Germany have relatively high levels of debt, which they are trying to roll over, without squeezing their domestic economies in the same way that, say, Czechoslovakia and Romania have been prepared to do.

With the price weakness of its oil and gold exports and its need to plug with grain imports the gap left by its bad 1984 harvest, the Soviet Union had a clear need to increase borrowing last year.

Lending upturn

Yet none of these three were considered in any way poor risks; indeed they found some of their borrowing oversubscribed by Western lenders, and a few loans were increased in size.

The fact that the Soviet Union and Hungary (which raised a further $100m in eurodollar bonds in January 1985) were able to tap the bond market marked a further step upward in their credit rating; bonds, unlike credits, cannot be rescheduled, and thus can usually only be issued by prime borrowers.

However, 1983-84 also saw an upturn in Western bank lending to the East, which was not in the form of publicised bank credits, but which is detectable in the rise in eastern liabilities vis-a-vis commercial banks reporting to the BIS.

Most of the increase in this sort of borrowing was by the Soviet Union and, among East European countries, Hungary. Another feature has been the increased use by Eastern countries of trade credit guaranteed by Western governments or their agencies.

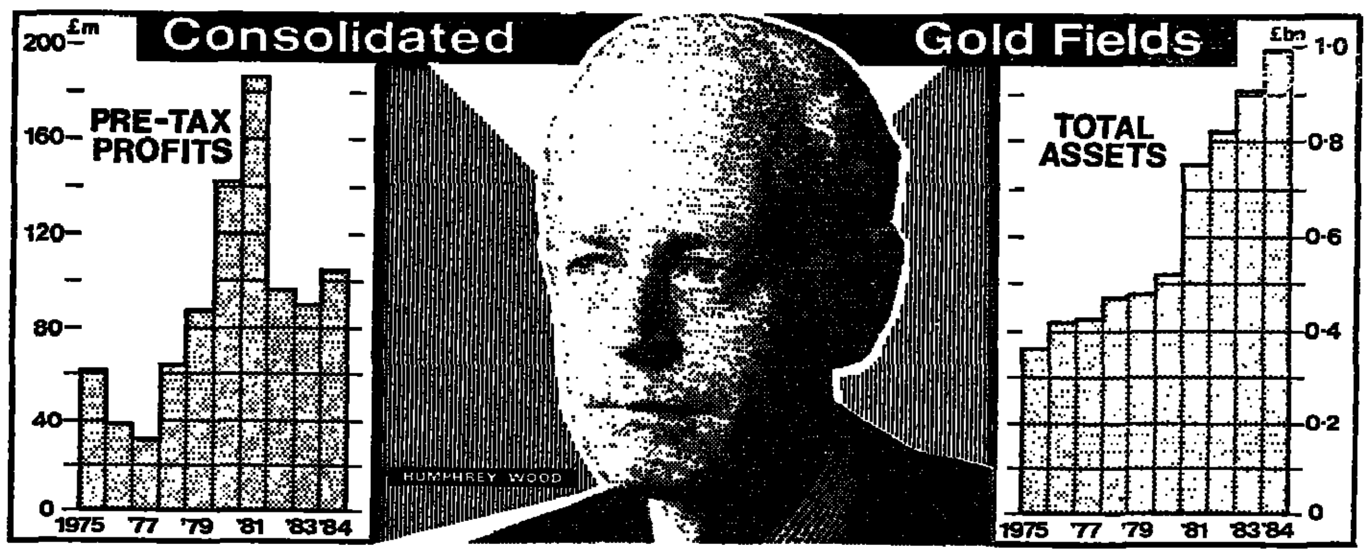
THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

ConsGold in the U.S.

Putting the 'horrors' behind it

George Milling-Stanley on the background to the UK-based mining finance house's American retrenchment



TWICE IN the past 20 years, the U.S. has proved a graveyard for the expansionist hopes of Consolidated Gold Fields, the London-based international mining finance house. There are now, however, some grounds for sharing the group's belief that it has learnt the lessons from its latest unfortunate experience.

Gold Fields' last American failure was accompanied in March 1983 by an £37m provision against the value of stocks and future losses of its oil drill rig manufacturing business, Skytop Brewster. Yet in September last year, the group's chairman Rudolph Agnew was able to tell shareholders that the worst was over, and that those U.S. operations which had not been sold or liquidated were at least breaking even.

How was this achieved? And what steps is Gold Fields taking to ensure that its remaining U.S. interests do not turn into a third financial disaster?

Agnew gives all the credit for the turnround to Humphrey Wood, a group managing director since July 1979 and the man who was sent to the U.S. in August 1982 to clear up the mess. Wood is a fit-looking fifty-one year old with sound experience of heavy industry behind him in the shape of spells with De Havilland, Hawker Siddeley and Rolls Royce.

Wood's summing up of the difficulties demonstrates part of the reason why he was the man chosen to go to the U.S. to stem the bleeding. His language can be forceful, even at times unprintable, suggesting the toughness of attitude necessary to carry out the required major surgery, and yet at times he can be the very model of a Gold Fields' managing director.

First indications that there might be serious problems ahead for the group's non-mining businesses in the U.S. came with the results for the 12 months to June 30 1982 when the contribution of the industrial interests to group profits fell from £32m the previous year to just £5m.

Gold Field's involvement in the U.S. industrial scene dates from the early 1970s, when the group began buying profitable companies in order to have some American income against which to write off the $30m tax losses arising from the unfortunate outcome of its first foray into the country, the takeover of American Zinc in the previous decade.

The strategy at the time, at least as it was perceived in the London headquarters, was to absorb the tax losses within the five years allowed by the U.S. tax authorities, and then to sell those businesses which were not central to Gold Fields' ambitions. The proceeds were to be used in building a presence in U.S. natural resources.

Under the guidance of David Lloyd-Jacob, the senior Gold Fields executive who was sent out to administer this plan, all went well for a time. The businesses he bought were sufficiently profitable to use up the tax write-offs within three years, rather than the five allowed.

However, at about this time Gold Fields' directors developed a degree of unease about the group's dependence on its highly successful South African gold mining interests, which, along with the UK and U.S. construction materials operations of Amey Roadstone Corporation (ARC), were the principal source of income. The directors greeted Lloyd-Jacob's success in diversifying into the U.S. industrial scene with open arms, the original strategy was forgotten, and he was encouraged to retain the non-mining interests and add to them.

The expansion continued throughout the decade, so that by 1980 the group had built up a motley collection of operations, many in the steel industry, and in that year Skytop Brewster was bought for about $60m. The oil exploration industry was then approaching its peak, which it reached in December 1981.

By the middle of 1982 it had become clear that the decline in the oil drilling market was something more than the usual seasonal fall-off. "In fact, this time the market simply never turned back upwards," Wood says.

At the same time, the recession posed problems for most of the other companies, but the impact on Skytop was disastrous. In the six months to July 1982, the company's sales, net of returned equipment and cancelled orders, had fallen from $360m a year to zero.

"Frankly, in August we lost our temper," says Wood. "I came back from holiday, zoomed across the Atlantic, and embarked on a period of doing six weeks' worth of work every month."

David Lloyd-Jacob still believed in the future of the group he had built up, and resigned when it became clear that the plan had changed.

Other departures soon followed, including the entire top management of the Newconex subsidiary, which had had control of Skytop, and the workforce of the manufacturing company itself was slashed from 1,851 at the peak to just 180.

Further surgery on Skytop was swift. One of the two big manufacturing plants and the Houston headquarters were closed.

Skytop is now generating enough cash to cover its operating costs, and Wood says somewhat wistfully, "it is a super plant, if only there were something to make in it."

Many of the other U.S. operations have already been sold or liquidated — as Wood puts it: "The horrors have all gone now, with the exception of Skytop." There are still "for sale" signs over most of the remaining operations, which Wood insists are good businesses, but they have no place in Gold Fields' long-term strategy for the U.S.

In fact, it is fair to point out that they would have been sold long ago if the 1970 strategic plan had been followed.

That leaves the steel minimill and fabricating business in Knoxville, which Gold Fields is treating as part of its presence in the U.S. construction materials market. "These businesses are strategic holds compatible with ARC America," says Wood firmly, "and we shall keep them and invest in them."

However, the argument for retaining them is unconvincing, and no one at Gold Fields seems able to provide a clear definition of the conceptual line which separates adding value to the products of the group's traditional business of extracting natural resources, and straightforward manufacturing industry.

Policy lines for Gold Fields' U.S. operations are now clearer than before, however. Anything which the group perceives as lying outside the mining or construction materials businesses is being weeded out, and management's attention is focused on developing the former through its own gold operations and through the stake in Newmont Mining, while the latter now fall under the umbrella of the newly-created Gold Fields ARC.

This company was set up last year to oversee all of the wholly-owned subsidiaries not engaged in mining, in the U.S. and elsewhere.

The formation of Gold Fields ARC will make an increasing difference to the non-mining interests in the U.S., Wood contends, and he is confident that the mistakes of the past will not occur a third time.

Tax losses on the last abortive foray into America currently add up to something over $150m, but Wood says firmly: "There is no rush this time to get into other businesses in order to absorb them."

Wood is now devoting something like 90 per cent of his working life to his job as executive chairman of Gold Fields ARC, a post to which he was appointed last July. His role as firefighter for the U.S. operations may be over, but Agnew clearly wants him on the spot, keeping an eye on the glowing embers.

Business Courses

EEC competition law, London. March 6-7. Fee: ESC members US$330, Non-members US$360. Details from European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland, Leics LE15 9PY. Tel: (0572) 822711.

Leadership in management, Slough. March 11-15. Fee: £450 plus VAT. Details from Urwick Management Centre, Baylis House, Stoke Poges Lane, Slough, Berks SL1 3PF. Tel: (0753) 34111.

The directors' workshop, Henley. March 13-15. Fee: members £465 + VAT. Non-members £515 + VAT. Details from the Education Department, Institute of Directors, 116 Pall Mall, London SW1Y 5ED. Tel: (01)-839 1233.

The fourth annual television planning and buying seminar, London. March 15. Fee: £149 + VAT. Details from Hilary Fenwick, Oyez International Business Communications, Bath House, 56 Holborn Viaduct, London EC1A 2EX. Tel: (01)-236 4080.

Preparing for and conducting negotiations, Glasgow. March 19. Fee: £50 + VAT. Details from Dr A. M. Fleming, the Strathclyde Business School, 130 Rottenrow, Glasgow, G4 0GG, Scotland: Tel: (041)-552 7141, ext 47.

The innovative teamwork programme, Leighton Buzzard. March 19-21. Fee: £395 + VAT. Details from Abraxas Management Research, 14 Church Square, Leighton Buzzard, Bedfordshire, LU7 7AE. Tel: (0525) 382 525.

Advanced Selling Skills for Bankers, London. March 19-21 Fee: £395 + VAT. Details from D. C. Gardner and Co, 5-6 Bartholomew Place, London EC1A 7HH. Tel: (01) 606 7644.

Corporate marketing strategies, Paris. March 21-22. Fee: Members (AMA/I) BFr 61,000, Non-members BFr 68,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussel, Belgium. Tel: 32/2/516.19.11.

Managerial redundancy and resettlement, London. March 29. Fee: £150 + VAT. Details from the Economist Conference Unit, 25 St James's Street, London SW1A 1HG. Tel: 01-839 7000 ext 420.

U.S. defence subcontracting, London. April 1-2. Fee £340 + VAT. Details from Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-404 4756.

Successful marketing in the EEC, London. February 21-22. Fee: £391 (£414 after February 7). Details from J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-404 4756.

Pharmaceutical competitor analysis, Lisbon. February 27-March 2. Fee: ESOMAR members SwFr 940, Non-members SwFr 1,120. Details from the ESOMAR Central Secretariat, J. J. Viottastraat 29, 1071 JP Amsterdam, The Netherlands. Tel: (020) 64.21.41.

Television by satellite, the practical, legal and commercial implications of assembling hardware and software in domestic, regional and international transmissions, London, February 26-27. Fee: £295 for ESC members; £325 non-members, plus VAT. Details from European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland, Leics. Tel: 0572 822711. Telex EURCON G.

Principles of finance, Bromley, March 10-15. Fee: £650 plus VAT. Details from Course Secretary, Sundridge Park Management Centre, Bromley, Kent BR1 3TP. Tel. 01-460 8585.

The data protection act, London, March 7. One day conference sponsored by the British Institute of Management. Fee: ESC members £141.45; non-members £166.75. Details from: European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland, Leics LE15 9PY. Tel: 0572 822711 Telex: 341352 EURCON G.

A business point of reference

THE SUCCESS of any corporate, marketing, personnel or other strategy can be heavily dependent on the quality of information incorporated in the plan. While there are numerous sources of research one which has the potential to be more heavily exploited is the British Library.

Despite its decade of existence it appears that many businessmen still think of the library as a place where manuscripts on Egyptian artefacts are more likely to be kept. This is far from the truth since the British Library has a high technology base of seemingly limitless amounts of information which may be of use to any business person.

At the lending division of the library—which is based at Wetherby, in West Yorkshire—some 84 miles of shelving accommodate books, magazines and journals, while there are also 1,500 miles of microfilm and a massive 1,600 megabytes of computer storage. Additionally, the London-based reference division has some 12m volumes on its shelves.

Last year, while the business information service at the library attracted nearly 10,000 enquiries, this represented only 10 per cent of the number of visits made by people to the library's science reference section.

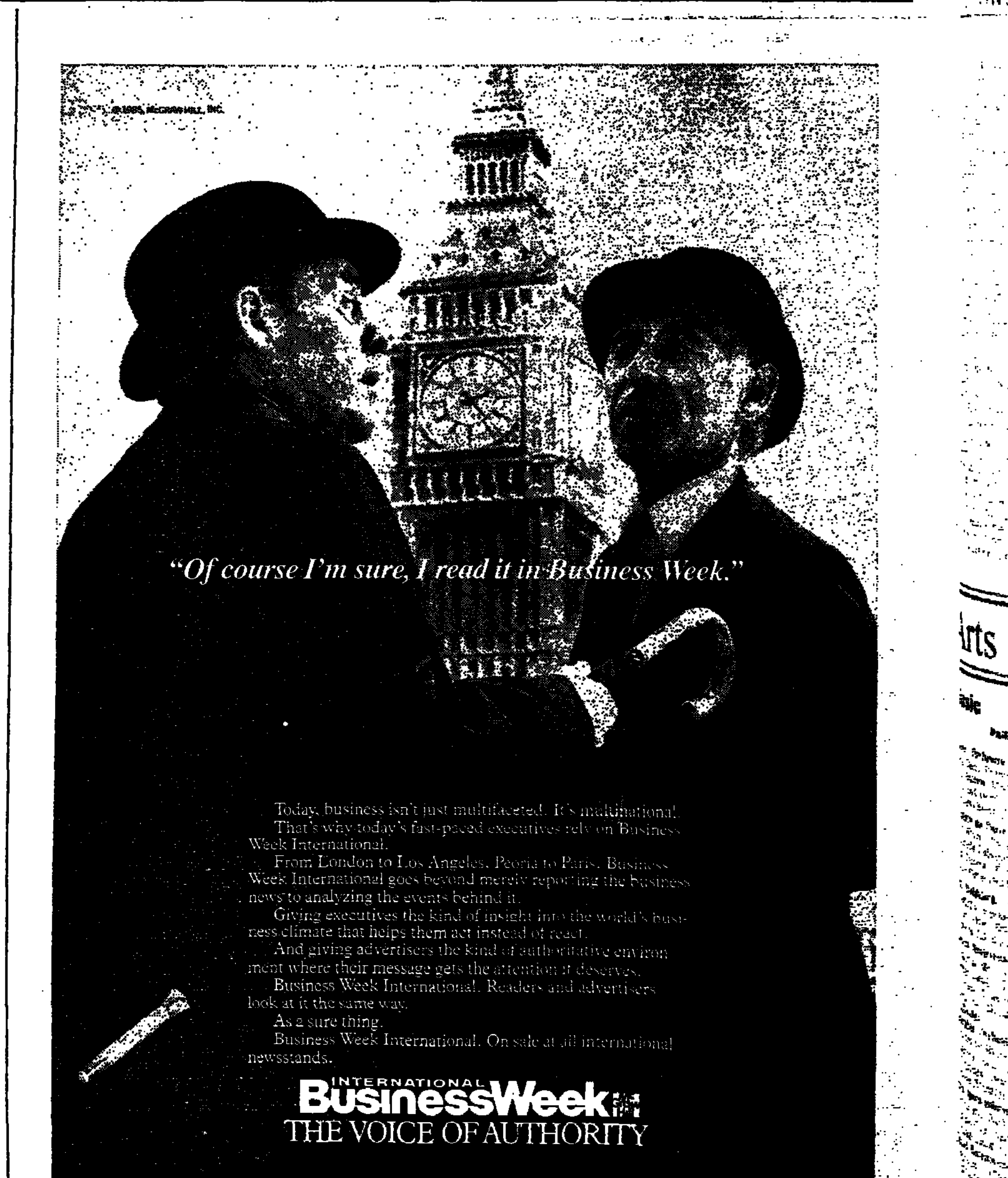
A rapidly expanding section is the "system for information on grey literature in Europe" (SIGLE), which embraces reports, discussion documents and conference papers that may not fall into any "official" paper category. Each year, 25,000 records are added to this service.

The library has found that it is able to satisfy around 90 per cent of enquirers using its lending division from its own stocks. Of the remainder some are provided with information through the library's contacts around the world, while just a small number go away empty-handed.

The library has therefore been able to establish a solid reputation for providing users with almost all the information they require. Most individuals or organisations generally become users of its lending division's document supply service whereby, for a fee of about £2 for each inquiry, copies can be supplied of whatever information is required from books, journals, newspapers, conference proceedings and so on. Delivery takes about 36 hours, though documents can be transmitted by facsimile transmission if urgently required.

Any business person using the business information service can obtain not only required literature, but also advice on how to use it and suggestions as to which organisations might be of further help. One organisation suggested will, not surprisingly, be the lending division which currently has about a quarter of its workload coming from commercial and industrial users of the service. Most of the inquiries are for scientific and technological materials.

The lending division is based at Boston Spa, Wetherby, Yorks, LS23 7BQ, tel: 0937 843434. The business information service is at the Science Reference Library, 25, Southampton Buildings, London, WC2, tel: 01-404 0406.



THE ARTS

Architecture

Colin Amery

Big scope for the small practice

IN 1983 and 1984 there were two important international architectural competitions, one for a completely new opera house in Paris on the Place de la Bastille, the other for major extensions to the Royal Opera House in London.

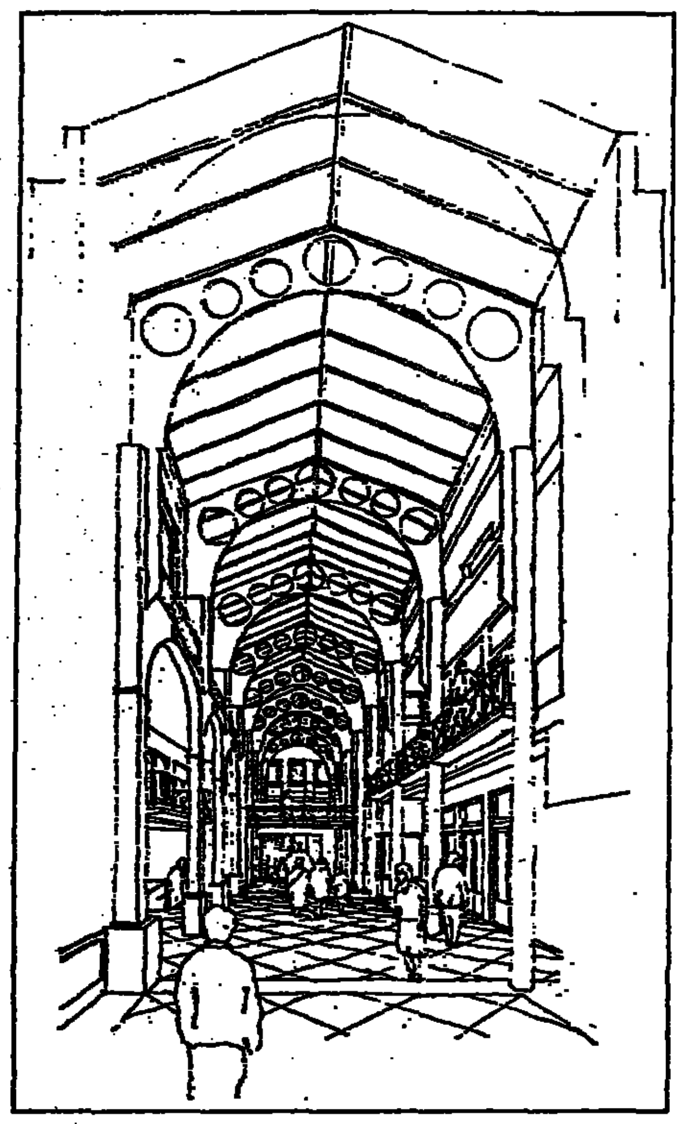
In the short lists of finalists for both contests was the young British firm of Nicholas Hare Architects. They are a practice that is on the brink. Will they receive the kind of major commission they need to consolidate their reputation and extend their talents, or will they remain quietly and modestly designing small projects from their attic in North London?

They are not alone in their dilemma. There are many small practices, often of considerable talent who are waiting for the large scale commercial or public job. The problem is, how are they to break into the stranglehold of the well-established and often mediocre establishment?

There are several ways. It is now possible for architects to advertise, to publish brochures or even to become developers. It is unlikely we shall see small practices taking space on the London Underground, or even in the august pages of this newspaper. They can do what Nicholas Hare has done, which is to ease yourself into the limelight by sheer force of talent.

It is part of every critic's duty to scan the shortlisted entries to competitions — particularly when those competitions — particularly when those competitions pay the short-listed entries the proper rate to develop their ideas. History has shown it is not always the winners who see their dreams realised. It is salutary to recall the scandal over the Law Courts when George Edmund Street managed to get his design built although he had not won the competition. There was a contest too for the recently vandalised Kensington Town Hall which was won by E. W. Godwin only to be replaced by an unknown local architect.

Here is clearly an architect who offers the kind of service that suits the needs of the client converting a house or planning a small extension. But the firm is also ready to be stretched and it is fascinating to see the small germs of the larger ideas.



Nicholas Hare's proposal to link Covent Garden's piazza to Bow Street through a new arcade

The placed design for the Paris Opera House undoubtedly shows a clever use of a wedge-shaped site that points its prow towards the Bastille column.

Immense trouble has also been taken with a treatment of the Paris street façades that utilise the arcade on the ground floor and the opening and articulation of the façades in a way that enlivens the grid-like qualities of a framed building. The scheme respects the scale of the city and the immediate site in a way that makes the Pompidou Centre look like a crude excrescence on the Paris scene.

The proposals for the extension of the Royal Opera seeem fascinating. The winner of the competition was Jeremy Dixon with the Building Design Partnership and I await their proposals with great interest.

The problem of the brief has always been that the developer needs to use the commercial element of the scheme to fund the extension of the opera house. In a sensitive area like Covent Garden the need for extensive public use remains paramount despite the tendency of the area to become an arsatz *quartier Latin.*

Hare's proposals see this point and wrap the considerable quantity of commercial space around an internal covered public square. This makes the kind of space that Covent Garden still lacks — amazingly, the conversion of the main market buildings never thought of glazing the end walls so that the whole space could also be used in the winter. Hare's square provides a kind of public atrium that is needed in London and it also acts as an *ante-room* to the foyers of the opera house.

An alternative proposal linked the piazza to Bow Street through an inventive arcade—suggesting successfully a continuity with the cast iron architecture of the Floral Hall and former market edifices. While the circulation and uses of the new architecture is impressive, I was less happy with the architectural treatment of the facades that have to link to the 19th century version of the Inigo Jones piazza. At the stage they had reached in the competition drawings they were not as sensitive as one would wish.

Undoubtedly there is a quiet and calm talent at work in this small practice that has already made a mark in the world of public competitions. It is certainly time that commercial developers took a few more architectural risks and steered themselves away from the inevitable Seifert and Fitzroy Robinson variety of practices. There are many small, young and highly-trained practices that are ripe and ready to be used. It is not such a large leap from the domestic conversion to the small office block or the infill in an historic town. Many of the same qualities of skill apply regardless of the scale. It is time to give those small practices brave enough to try the water without a corporate umbrella a chance. After all, there is plenty of scope—just look around you.

Tristan and Isolde/Coliseum

Max Loppert

Tristan, conducted by Reginald Goodall and given in Andrew Porter's new translation, came first to English National Opera at the start of the 1981-82 season. Musically, the production attained with sovereign assurance the level predicated by the very name of its conductor. Dramatically and visually, it did not: "faced," Ronald Crichton wrote after the premiere, "with so much milk-and-water English mildness one guiltily longs for the usurpations of those continental directors whose ways are sometimes criticised on this page."

For the return of the opera to the Coliseum, it appears that the ENO powers-that-be had decided to gratify Mr Crichton's longings in full; for the 1981 production is replaced in its entirety by the one made in 1974 for the Netherlands Opera (in Heinrich Wendel's sets and Skalicky's costumes) by Götz Friedrich. In case this arouses fears that the sometime critical traditions of this page will immediately be invoked, I must say at once that admiration for Friedrich's production provided a notable ingredient in the feelings aroused by Saturday's performance.

But discussion of the purely musical aspects come first: a Goodall appearance allows no other treatment. In brief, this was not the intoxicating, almost (but, happily, never quite) overwhelming experience recalled from the first Welsh National *Tristan* five years ago. The quality of orchestral playing on Saturday answered for that, the acoustics of the larger London theatre (as compared with those of Cardiff's New) likewise.

Every Goodall Wagner performance follows the most devoted, precise, painstaking preparation period, yet neither in tone nor in ensemble were these latest fruits thereof wholly comparable with others of the past. String playing went through dry patches as well as those of lyrical iridescence; the weave of wind and brass into full textures tended (especially in Act 1) to sound far from seamless. Desiring a Bayreuth-like "presence" in a non-Bayreuth-like auditorium is, of course, a temerity — but one which previous Goodall excursions here have better excused.

Yet when all such carpings are done, it remained a performance on the grandest agnerian scale, one which carried listeners along without ever submerging them (or, indeed, the singers) in swells of passing excitement, which discovered an apparently spontaneous inspiration in the placing of smallest details while never allowing the forward movement a moment of let-up — the arrival at the close of each act brought a feeling of release precisely justified by everything that had led to it. Love duet (in which the ENO orchestra achieved its closest approach to transparency and warmth of sonority) and its subsequent long interruption were forged into a sequence as majestically by the conductor as it was with illuminating vividness by the producer. At the Coliseum one is in the hands of a master musical mind; the feeling is like no other in the opera house today.

Only a single principal remains from the 1981 cast, Alberto Remedios as Tristan. The voice is no longer fresh; nasality and a perceptible beat sullied many phrases; in the strains and torments of Act 3 there was, even with this most "vocal" of Wagner conductors in the pit, a more frequent recourse to barking than I recall in any previous Remedios Wagner portrayal. Yet it remains a noble achievement for all that, wholly individual in its blend of manly frankness and seriousness (no Vickers-like searing agonies here), intensely lyrical in feeling if no longer consistently so in the actual sound.

The ENO has had the luck to persuade Johanna Meier, already known to British audiences as a WNO Isolde, to fill the vacancy caused by the still-indisposed Linda Esther Gray. The American soprano sent us advance notice of a heavy cold, which surely explained the unfamiliar wobble and clouded timbres under pressure, the doubtful intonation in low ranges (higher ones rang out impressively). The fine features and slim build, the graceful movement, the genuine sense of emotional growth in the characterisation were preserved: but the final incantatory magic operated by singers of the title roles in full vocal command, or something like, was not available on this occasion.

The words of both were persistently unclear—had it not been for Linda Finnie's Brangäne and the superbly incisive King Marke of John Tomlinson, th point of giving the work in English at all (let alone in a translation of such notable distinction) must have remained unproven. Miss Finnie, taking at last the major London role which has so long been her due, does so with splendid amplitude, a few momonets of rawness notwithstanding; caring, uncomprehending maid and handsome, headstrong mistress are in excellent contrast. Tomlinson's first Marke already wins the audience's unbroken concentration; when he has learned to shape phrases filled with powerful tones into a smoother succession of lines, he will be an important Wagner bass. Geoffrey Chard's sympathetic Kurwenal has the right manner, not quite the right baritone; lesser parts are only adequately filled.

The production seems to me one of the most intelligent attempts to scale this impossible, insurmountable Everest of an opera in its recent theatrical history. Darkness prevails; the stage is filled by a large horse-shoe-shaped permanent set, angled on a diagonal (a kind of crater occupies its centre in Act 2, in Act 3 it is raised into a spiral). The whole opera is exposed to surrounding spotlights and projections—in Act 2 and at the opera's end these latter develop starscapes whose radiance rises or falls in response to the immediacies of the sung word.

In other words, producer and designers have attempted to play out the action in the characters' own "inner world" —what happens inside them becomes the scene itself, and moments that seem initially puzzling or in direct contradiction of the libretto (such as the direct meeting of Tristan and Isolde during her narration) are quickly discovered to make new sense within that enclosing theatrical prescription. There is a great coup at the end of the love duet, as the starscape drops like a torn curtain to expose harsh stage lights—a moment of purest theatricality that instantly catches the many levels of audience experience at this point in a single, spell-binding image. Altogether, I have never before been made so aware of so many layers of thought and philosophical speculation above and below Wagner's music.

It is a production open to objection on several counts. The narrative directness that should anchor the performance is intermittently lost (prosaic English minds will wonder how and why Tristan survives so long on such a hard, bare surface). The production style does not go for, does not permit, the engulfing romanticism that should be no less part of the *Tristan* experience; to some eyes its textures and colours will no doubt seem slightly dated-70s, if not actually unpleasant. And the dramatisation for the eyes of instrumental preludes that should be for the ears alone is unforgivable. With a lesser Wagner conductor than Goodall in charge, the insights of this production might indeed appear to be bought at too heavy a cost. In these circumstances they add up to something of a revelation.

The Power of the Dog/Hampstead

Michael Coveney

Joint Stock no longer has an artistic director, so a programme note at Hampstead Theatre tells us, and all decisions are now made by committee. Judging by Howard Barker's new play, which happens, in part, to be about Stalin, an autocratic iron fist might not be such a bad idea after all.

Following an entertaining Yaltaesque cabaret with Churchill blathering on at the chunky Georgian through a pair of discreet interpreters while a Glaswegian comedian fails to raise a laugh, except by accident, the piece declines into an almost impenetrable journey through the Polish Plains.

Here, a Hungarian former fashion model is collecting pictures of Nazi atrocities, accompanied by a Romanian Jew. This Ilona is also in search of her sister's murderers.

I have always felt that Mr Barker is a curiously imitative playwright, but he does keep you on the edge of your seat, even with bad writing. And he has, over the past 12 years, written many fine plays. This is not one of them. The last Joint Stock Barker project, *Victory*, was much better, and last year's radio play, *Scenes from an Execution*, better still.

Each of these last plays took incidents from history and art and stirred up a fine old potage of theatre that at least related to contemporary perceptions of the world and our view of it. This new play throws out, in *a series of mildly incendiary* scenes, ideas of personal revenge and public grief, the recording of history on film and in photograph, all with a pinch of bestial sexual aggression. It remains, however, an incoherent morass of vaguely related dramatic propositions, none of them very pressing.

Kenny Ireland's production combines individual sharpness of character with an overall fogginess of purpose, the action set by designer Roger Glossop in a morgue-like inner sanctum of the Kremlin which translates easily into the Polish desert. Stephanie Fayerman's Ilona moves briskly through the straggling ranks of the Red Army to a final meeting with the source of her woes. Philip McGough's bullet-headed Stalin receives her, as he does everyone else, with killing deference.

Kenneth Gilbert/Wigmore Hall

David Murray

The harpsichordist Kenneth Gilbert, established himself a considerable while ago with his Couperin recordings. Since then he has explored the repertoire for his instrument most assiduously—Rameau, Handel, Soler—and indeed the instrument itself, which lent itself over the years to a variety of design and construction that makes the modern pianoforte seem dully standardised. Last night he offered Bach and Scarlatti (this year being the tri-centenary of each) on a handsome blue and gold modern replica of an antique harpsichord, sonorous and well-balanced but plausibly authentic in tone.

Gilbert adopted very different styles of address for his two composers. Of Bach he played the Sixth and Fifth Partitas: his pointed rhetorical dwelling on chords in the toccata that opens the Sixth proved exceptional, for in most of the other movements he was swift, poised and literal, content to expound the music with impersonal panache. Some rhythmic experimenting with one of the Allenmandes was indecisive in effect, and it was rather a relief to pass on to the brilliantly fluent Corrente that followed it. Everything was notably lucid, and the final Passepied and Gigue in the Fifth partita had as much grace as glitter.

After the interval came nine Scarlatti sonatas (six in pairs, as is generally thought to have been Scarlatti's conception, and a further trio which shared not only the key of D but bursts of Spanish colour in harmony and rhythm as well as a frank guitar-imitation). There the performer allowed himself any amount of imaginative licence, above all in diction. Phrases were studded with cunning hesitations, suggestive emphases, sudden springs; the bold general character was surely right, though in a couple of sonatas I felt that the continuity of the music was almost lost under the wealth of local titivation — and is no semiquaver run in Scarlatti meant to sound measured, rather than a dizzy swoop from one place to another remote one? But there were teasing rewards in every piece, and most of them — above all the trio in Spanish hues — were clear successes for Scarlatti and Gilbert alike.

The Diary of a Scoundrel

Michael Coveney

As Gogol's *The Government Inspector* opens at the National this week, the Orange Tree opposite Richmond Station comes up with a bright and breezy complement: Ostrovsky's 1868 satire in which a scheming lampoonist, Yegor Gloumov, sets out to keep a scurrilous diary while ingratiating himself with the Muscovite society he despises. He attaches himself to a pompous civil servant, seduces married women, and lays siege to the wealthy niece of a sanctimonious entertainer of drunken pilgrims.

The English version is by Rodney Ackland, presumably the one he produced during the war-time mini-glut of Russian drama in London. Today, all we know of Ostrovsky, a truly prolific playwright, are *The Storm* and, thanks to the RSC, *The Forest*. This invigorating comedy is in the mould of Griboedov and Gogol, but its resolution is wholly original. The scoundrel is uncovered by his victims and exposed by them as a fraudulent leech. He in turn pumps up his righteous chest and rejects them, rather as Coriolanus banishes Rome. Peter Rowe's production handles this climax a little hastily and the play ends with a bump.

The rest, though, is fine and no undue allowance has to be made for the inevitably exiguous budget or the oppressive intimacy of this pub attic. Yegor is taken up as a speech writer in his conspiracy of fawning exploitation and kisses his patron's wife robustly on the lips to the accompanying explosion of a Polovtsian Dance. Paul Bradley, curly-haired and baby-faced, plays Yegor with the blazing deceitfulness of Molière's best hypocrites, with Philippa Gall excellent as his vain and willing sexual prey.

The gallery of Moscow gulls and politicians is sharply drawn by a doubling-up company: Frank Moorey particularly incisive as a decadent literato with an odd resemblance to Christopher Logue; David Timson underweight but suitably huffy and puffy as the flattered lost "Uncle" whom Yegor lampoons as a "hippo"; and Jan Carey switching to the maidenly religious aunt who wishes she had a boy just like him.

For all that, however, the only performance which really caught a mood of authentic savagery was Peter Guinness's as a moveable servant. At the third act retreat, he announces the aunt's callers with steadily deepening disdain, reporting an unholy fracas in the kitchen and the arrival of a particularly *dubious pilgrim*, "a *proper* Hungarian, the sort who sells mousetraps." The line is not inherently funny, but it finished me off. I can tell you. It is then capped by another which I swear Bill Fraser would give his right arm for. An enjoyable revival, then, and another hint of unmined riches. However the National may do Gogol, they can surprise no-one with the play.

Marti Webb in 'Cats'

Marti Webb will take over the part of Grizabella in *Cats* for a 12-week season from February 4.

Cinderella/Covent Garden

Clement Crisp

What Ashton ballets need in performance, above all, is a sense of style. Given that Ashton is the founding figure of our national ballet's way of dancing, it should not be too exigent to expect that at Covent Garden his works look correct in manner, if not always inspired in interpretation. Yet in recent years the erosion of Ashtonian style has seemed to me the worst disservice the company could pay to a man whom it owes so much. That masterpiece, *Scènes de Ballet*, has lost an essential chic; the wit of *A Wedding Bouquet* can appear mere larkiness; *Fille's* pastoral charm looks automatic; the revival of Birthday Offering made variations, that should be portraits of varied and delightful temperament, more like test-pieces in any of those ballet competitions that litter the dance-world like provincial circuses.

The truest guides to Ashtonian interpretation in *Cinderella*, as in every other work, are Antoinette Sibley and Anthony Dowell, who provide sensitivitly, understated elesd-f that combination of musical sensitivity, understated elegance and controlled *radiance of feeling which are* the emblems of good Ashton dancing, with the choreographic structure of the dance ever savoured. This last quality—where the dancer comprehends what the choreography is doing and delights in revealing its felicities — was largely absent in two performances of *Cinderella* at the end of last week.

On Thursday night Jennifer Penney, with her exquisite physique, gave the dance a creamy ease which made the heroine gently touching, and Mark Silver was a suitably enraptured Prince. Friday night's debutants, Karen Paisey and Philip Broomhead, were youthfully well-mannered, but never took off from the exposition of the steps to emotional or technical delight in the work. The most satisfying dancing came from the two Jesters. Simon Horrill and Simon Rice, both striking sparks from the choreography, while alone among the season Fairies, Fiona Chadwick found a shape and dynamic purpose to her variation and the amplitude of phrasing to do it full justice.

The Ugly Sisters' roles pose the greatest problems for today's incumbents. These two grotesques are at present either brassily vulgar or, with Friday's newcomers — Jonathan Burrows and Michael Crookes—only mildly comic. Much of the humour is careworn, and incidents which the great originals, Ashton and Helpmann, threw lightly and hilariously away, are now belaboured and unfunny. The opening scene raises nary a laugh, where once it marked the joyout start of a joyout evening.

Cast from strength, and rehearsed with an eye to Ashtonian niceties, *Cinderella* must, at its next outing, do honour to its choreography. Otherwise a major ballet will fall into disrepute.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Jan 25–31

Music

PARIS

Nouvel Orchestre Philharmonique and Radio France Choir conducted by Andrew Meltzer: C.P.E. Bach, J.S. Bach (Wed). Saint-Louis des Invalides Church (5241516).

Orchestre de Paris conducted by Myung-Whun Chung with Katia and Marielle Labeque, pianos: Beethoven, Dussek, Kodaly (Wed, Thur). Salle Pleyel (5638873).

Eric Heidsieck, piano, Veronique Dietschy, soprano, Jean-Pierre Arnaud, oboe, Bernard Thomas orchestra: J.S. Bach (8.30pm).

Evgueni Nesterenko, bass, Orchestre National de Lyon conducted by Serge Baudo: Schönberg, Sibelius, Operatic Arias (8.30pm). Both concerts on Monday, TMP-Chatelet (2334444).

Ensemble Orchestral de Paris conducted by Michel Corboz with Lausanne's vocal ensemble: Bach – Christmas Oratorio (Mon): Salle Pleyel (5638873).

Paris Opera soloists, Herve Lemfloch, violin solo; Bach, Brandenburg concertos (Tue): Salle Favart-Opera Comique (2960611).

Daniel Barenboim, piano: Beethoven Sonatas (Tue): Salle Pleyel (5638873).

Amadeus Quartet: Beethoven String Quartets (Tue, Thur): Théâtre des Champs Elysées (7234777).

Orchestre National de France conducted by Emmanuel Krivine, Julia Migenes-Johnson, soprano: Gershwin (Wed): Théâtre des Champs Elysées (7234777).

VIENNA

Alban Berg Quartet, Mozart, Haubenstock-Ramati and Schubert. Konzerthaus Schubert Saal (Mon).

Sakura Yamada, piano. Mozart, Beethoven, Faure and Schumann. Bösendorfer Saal (Mon). (656651).

Ensemble Musica Antiqua conducted by Bernhard Klebel with Konrad Ragossnig. Dowland, Morley and Holborne. Palais Liechtenstein (Tue).

Vienna String Sextet. Bach, Mozart and Brahms. Konzerthaus Mozart Saal (Wed). (721211).

LONDON

London Symphony Orchestra conducted by Andre Bernard with Olivier Gardon, piano. Brahms and Nikisch. Barbican Hall (Thur).

Chicago Symphony Orchestra conducted by Sir Georg Solti. Shostakovich and Bruckner. Royal Festival Hall (Thur).

English Chamber Orchestra conducted by Sir Charles Mackerras with Cecile Ousset, piano. Rossini, Beethoven and Schubert. Queen Elizabeth Hall (Thur).

London Philharmonic Orchestra conducted by Riccardo Chailly with Ken Noda, piano and David Nolan, violin. Ravel and Chopin. Royal Festival Hall (Tue). (9283191).

Royal Philharmonic Orchestra conducted by Yuri Temirkanov with Peter Donohoe, piano. Prokofiev, Rachmaninov and Rimsky-Korsakov. Barbican Hall (Tue).

Jorge Bolet, piano. Debussy. Queen Elizabeth Hall (Tue). (9283191).

London Symphony Orchestra conducted by Andrzej Panufnik and John Georgiadis with Carlo Curley, organ. Albinoni, Panufnik, Handel, Elgar and Poulenc. Royal Festival Hall (Wed).

Academy of St. Martin-in-the-Fields directed by Kenneth Sillito, with Maurice Bourgue, oboe. Handel, Albinoni, Bach, Bellini and Verdi. Queen Elizabeth Hall (Wed).

Northern Sinfonia conducted by Richard Hickox with Janet Baker, mezzo-soprano. Mozart, Berlioz and Beethoven. Barbican Hall (Wed).

ITALY

Milan: Teatro alla Scala: Violinists Paolo Borciani and Elisa Pegreffi, Tommaso Poggi (viola) and Luca Simoncini (cello) playing Bach Quartets (Mon). (809126).

Rome: Teatro Ghione: Via Delle Fornaci, 37: Clementi, Evangelisti, Hindemith and Debussy with the pianist Alberto Pomeranz, cellist Aldo d'Amico and the flautist Monica Berni (Mon). (6372294).

Rome: Teatro Olimpico: The pianist Andrea Lucchesini playing Schumann, Beethoven and Brahms. Wed. (3601752).

NETHERLANDS

Arnhem, Schouwburg. Beaux Arts Trio. Mozart, Schumann, Ravel (Mon). The Gelders Orchestra under Guido Ajmone-Marsan, with Herman Hopman, trumpet. Dvorak, Hummel, Beethoven (Tue). (422741).

The Hague, Diligentia. Members of the Hague Philharmonic in an evening of chamber music. Samuel-Rousseau, Tournier, Smyth, Beethoven (Wed). (464308).

Utrecht, Muziekcentrum Vredenburg. Recital Hall: Ivry Gitlis, violin, and Michel Samson, viola. Mozart, Martinu, Hindemith, Bartok (Wed). (314544).

NEW YORK

New York Philharmonic (Avery Fisher): Klaus Tennstedt conducting, Bella Davidovich, piano. Beethoven, Dvorak (Tue); Zubin Mehta conducting, Eva Marton soprano, Peter Hofmann tenor, Martti Talvela bass. Wagner: Die Walküre Act 1 (Thur). Lincoln Center (8742424).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting, Jean Pierre Rampal flute, Lucy Shelton soprano. Handel, Bach, Vivaldi, Laderman (Tue); Mstislav Rostropovich conducting, Matti Salminen bass, Oratorio Society of Washington directed by Robert Shafer. Sibelius, Mussorgsky (Thur). Kennedy Center (2543776).

TOKYO

Yomiuri Nippon Symphony Orchestra, conductor: Yoel Levi, piano: Hiroko Nakamura. Debussy, Rachmaninov, Mussorgsky-Ravel. Osei Nenkin Kaikan (Shinjuku). (Wed). (2706191).

Tokyo Symphony Orchestra, conductor: Kazuyoshi Akiyama, Messiaen Turangiala-Symphonie for piano and orchestra. Tokyo Bunka Kaikan. (Tue). (3826764).

Lucio Silla/National Opera, Brussels

Arthur Jacobs

Mozart continues to astonish, if not in quite the way Peter Shaffer would have us suppose. In *Lucio Silla*, an opera which Mozart was commissioned to write for Milan at the age of 16, he displays not merely a command of current musical forms and dramatic devices, but a boldly individual way of using them. While some of Mozart's boyhood symphonies merely suggest a precocious exchange *of cultured conversation, this* does far more. Indeed the richness overflows, particularly in fully orchestrated recitative: it is as if maturity was to bring not greater resource but a greater sharpness and economy in using it.

The score of *Lucio Silla*—an opera about the Roman dictator Sulla—has not remained totally *neglected. Some isolated modern* revivals have been supplemented by two substantial recordings. But to re-launch it on the present ambitious scale —as a co-production between *La Scala in Milan*, the *Théâtre des* Amandiers at Nanterre in central France, and now the National Opera in Brussels—is to state a bold claim for its values. Our decade is indeed more receptive to such a claim because of the acceptance (even, finally, at the conservative Metropolitan, New York) of *La clemenza di Tito*, in which *Mozart* at the very end of his life returned to a similar theme of Roman statesmanship and self-sacrifice.

Reminders-in-reverse of the mature Mozart are indeed to be found in the boyhood opera. Faced with the dictator's sexual importunities and threats of cruel death if she refuses, Giunia's definant response forecasts Constanze's music in a similar context in *The Seraglio*. At Brussels, this role of a married heroine was nobly and thrillingly sung by the Italian-American, Leila Cuberli. A work demanding four singers of first-rate coloratura accomplishment is indeed splendidly cast here.

But where is Rome? In Richard Peduzzi's designs, with costumes by Jacques Schmidt, the precise locations and the classical adornments specified by the libretto are absent. Against a grey background like a stone wall, soloists and chorus are all in black as though out of *Don Giovanni*. Of course the "Roman" action is a metaphor standing for the 18th-century ideal of the benevolent ruler, but to drop the metaphor helps not at all, and the uniformity of clothing and drabness of scenery must increase the *listener's temptation to see the* whole as an undifferentiated parade of song with the minimum of drama.

But the major error of Patrice Chéreau as stage director, with the acquiescence of Sylvain Cambreling as musical director, is to chop Mozart's careful three-act structure into two. The original first act ends, after an impressive choral entry, with a duet of reunion (the opera's only duet) between the heroine and the husband whom she has thought dead; the second act ends, similarly after a choral scene, with the opera's only trio—the dictator and the married pair confronting each other. These cornerstones of dramatic architecture (with a plan of tonality to match) are displaced by this production, the interval inconsequentially occurring after a minor character's aria.

Chéreau achieves some affecting interaction of characters, but is ready to disfigure it by sudden changes of lighting or by other contrivance. "Parto, m'affretto" sings Giunia, when for inner reasons she is not able to depart and hasten: here, this is crudely (but presumably by intention) symbolised by the *train of her dress being trapped* between the blocks of the scenery. At the very of the production, the action does not cease with the music; in palpable minutes of silence, the *minor characters depart with* expressions of wonder at what will happen, now that the dictator has abdicated his power. As if Mozart were not eloquent enough!

Like the Milan staging of the production, the Brussels version presented Anthony Rolfe Johnson as Silla. He did impressively in a part underwritten by Mozart (whose original interpreter lacked capability) and over-activated by Chéreau. Ann Murray was an accomplished Cecilio, though the female singer of an 18th-century male role encounters almost inevitable difficulty in combining pathos and manliness. Miss Murray's lower notes now suffer at the expense of her higher, so Mozart's intensity of contrast (low A-natural jumping to A-flat nearly two octaves above) *suffers too. Admirably sung*, admirably characterised support came from Britt-Marie Aruhn as Cinna (another male role) and Christine Barbaux as Celia.

The subordinate role of Aufidio was almost entirely cut (there were some other cuts, not objectionable) from this very long score. The orchestral playing under Cambreling's careful direction was satisfactory, though not achieving the finesse I expected in an opera-house which has made such a speciality of Mozart under Sir John Pritchard and Cambreling himself. That the Brussels took *Lucio Silla* as a high point of their season was signalised by the presence of the King and Queen of the Belgians at Tuesday's opening night.

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The takeover fever

RARELY has the London stock market buzzed with so much takeover speculation; seldom have so many major companies been identified as targets. It is not a healthy phenomenon.

To some extent the same forces are at work in the U.S. but there the emphasis today is mainly on individual predators who are out for a quick killing. American conglomerates — perhaps because Wall Street's memories of the 1960s are sharper—do not have the glamorous rating which London accords to companies like BTR and Hanson Industries. Moreover, it is not just the established takeover specialists which enjoy the London market's favour. A merger lacking in apparent logic, like that between P&O and Sterling Guarantee is received rapturously.

Whereas a few years ago, in less bullish stock market conditions, diversification into unrelated areas would have been regarded negatively by investors, now it is often seen as a sign of strong management. The move by BAT Industries into financial services is one example. Ironically, the professionals of the City of London are still suspicious of mergers within the financial community itself — as Mr Jacob Rothschild and Mr Mark Weinberg found when they attempted to build a conglomerate in financial services last spring. Just why the stock market should believe that Mr Weinberg's company, Hambro Life, can fit more comfortably into a tobacco empire than into a financial group is not at all clear.

There is, of course, nothing wrong with diversification in itself. Some companies are very successful at managing a portfolio of businesses in unrelated industries. Equally a market economy needs acquisitive companies which are looking for underutilised and undervalued assets. As long as these marauders have the financial and human resources to put the assets to better use, they can be a force for greater efficiency. The danger, as happened in the 1960s, is that the takeover fashion can go too far and participants in the market are caught up in a fever of speculation which leads to bad corporate decisions.

The surge of takeover activity has revived anxieties that financial systems like that of the U.S. and the UK, in which the stock market plays a large role, are too heavily geared to the short run. The patient corporate builder, investing for the long term, is too dull for the eager fund manager who wants to boost his portfolio performance over the next quarter. Institutional investors lack the motivation, skill, and persistence to intervene directly in badly-run companies; they are happy to shuffle the problem off to the predators. The merchant banks, meanwhile, can look forward to earning fees from the eventual break-ups of the giants, just as they prospered from the process of building them up.

Lessons

Whether the system itself is seriously flawed is questionable; good management does not have to be of the "go go" variety to receive the stock market's support. What seems to be beyond question is that two important lessons of the past 20 years are in danger of being forgotten.

One is that at least half the mergers which take place fail to achieve their promoters' expectations. Success is least likely when the acquirer ventures far from the kind of businesses which he understands and is good at. Making a merger work is very much more difficult than the takeover transaction itself.

Second, high flying conglomerates—not all of them, but enough to counsel caution—have a habit of coming down to earth with a bump. This is partly because successive takeovers need to be bigger and bigger to feed the appetite for growth so that the group becomes unmanageable. The unscrambling of ITT, the classic multinational conglomerate, is a reminder that, when times are bad, when the original creator fades from the scene or loses his touch, the elaborate structure which he built can turn out to be dangerously fragile.

Europe's goals in space

IN THE past few years, outer space has ceased to become something simply to wonder at. It has instead become important for very practical reasons to a host of business and government organisations.

Communications and TV companies regularly buy or rent space satellites as relay craft for radio messages; governments operate weather and earth-mapping satellites to give a vital service to private companies; while space hardware is of crucial importance to military forces, which since 1958 have put into orbit some 2,000 vehicles (two-thirds of all the satellites launched) for jobs such as communications or observation.

The U.S. and the Soviet Union, the major powers in space technology, have seen their leadership challenged in the past decade by countries such as China, Japan and India, all of which have their own launch vehicles and fledgling space industries. Western Europe's response has come in the form of the Paris-based European Space Agency, an 11-nation body set up in 1975 that co-ordinates the continent's efforts in space activities.

The agency, whose biggest paymasters are (in order), France, West Germany, Britain and Italy, has had some success in promoting the $750m development of Ariane, a satellite launch vehicle based on a conventional, expendable rocket. Ariane is now sold by Arianespace, a company controlled mainly by French interests, which has an order book for launches worth some $650m. The ESA has also paid for work in satellites and space sciences such as astronomy that has kept Western Europe abreast of developments in important areas of technology.

Crossroads

The agency—or rather the governments that control it—reaches an important crossroads at a meeting this week in Rome when it is due to decide on a strategy for the next 10-15 years. Technology ministers representing the member states will consider a proposal to increase by 50 per cent the agency's annual budget of about $700m. The extra money is due to go mainly on two projects, which could each cost some $1.7bn over 12 years: further development of Ariane so that it can lift heavier payloads, and the construction of a module, called Columbus, that will plug into the $8bn U.S. space station, due to enter orbit in the early 1990s.

This last project would give Western Europe a share in a programme that could greatly affect the way space technology develops over the next decade. From work in the space station could evolve new, commercially relevant techniques, in areas such as production of materials in low gravity or monitoring of the earth's surface, to observe crop growth or mineral deposits, for instance.

In favour of an increased ESA programme is that much of the $100bn or so that the U.S. government has spent on space technology over the last 25 years has had a direct effect on the creation of new, wealth-producing industries (in areas such as satellite communication, solar-energy devices and rocket motors) whose impact has been far wider than anyone could have predicted in the late 1950s.

The West European countries should certainly not attempt to emulate all the segments of the space programme in the U.S.—where total government spending (including military projects) is about $18bn a year. The National Aeronautics and Space Administration—the U.S. civilian authority which is ESA's rough equivalent but which has a budget 10 times as large—tends to favour grandiose projects that have a habit of consuming large sums of money. As a result, it has come in for criticism, notably from Congress's Office of Technology Assessment, which said in a report on the space-station project last year, that smaller programmes, if properly thought out, could yield useful results at less cost.

On the space station, for instance, the OTA thinks that Nasa is being too ambitious in proposing a scheme that is designed to do a great variety of jobs rather than to meet a few specific objectives.

These are thoughts upon which the European ministers ought to dwell during their discussions this week. Although they probably will give the overall go-ahead to Columbus, they are likely to stop short of earmarking funds for the programme beyond the $50m or so required for a two-year feasibility study on the project. This time could be used as a breathing space in which to work out the goals that Western Europe would like to achieve from space technology—and the extent to which a significant participation in the U.S. scheme to build the space station will satisfy these goals.

UK TAX REFORM

Why VAT makes more sense

By Michael Prowse

UNTIL the suddent public spending demands of the Second World War, income tax in the UK was paid only by an affluent minority: in 1939 only about a fifth of the working population was troubled by direct taxation. The Thatcher Government could, if it chose, recreate this attractive fiscal climate—without swingeing cuts in public expenditure. The key is one of the most logical levies ever devised: value-added tax (VAT).

VAT, following the sharp increase in its rate to 15 per cent in 1979, is already an effective tax: it pulls in about £18bn a year, more than half the £34bn yield of income tax. But it would be quite feasible over the next decade, to boost VAT receipts (in 1985 pounds) to about £40bn. Most, but not all, of this extra revenue would be available for income tax cuts.

The doubling of VAT receipts in real terms, and the relegation of income tax to the role of a relatively minor levy, could be achieved in two steps.

● The base of VAT could be substantially extended. At present, little more than half of consumers' expenditure is subject to VAT: there is no compelling reason why the eligible fraction should not be at least 80 per cent.

● The rate of VAT could be raised in stages to, say, 25 per cent.

The extension of the VAT base to cover everything except housing, construction and one or two service industries, would raise £7bn. The increase in the rate to 25 per cent, on this enlarged base, would bring in a further £16bn.

This scheme would achieve what Government Ministers tend only to talk wistfully about: a substantial shift from taxes on earnings to taxes on spending. But it would attract two apparent serious criticisms. It would be dismissed as both highly inflationary and highly 'regressive'—meaning that it would inevitably shift income from the poor to the rich.

The rate of VAT could be raised to 25 per cent

Neither objection is nearly as telling as it might sound. The worry about inflation is a legacy of the summer of 1979. The sudden rise in the VAT rate from 8½ per cent on most goods to 15 per cent did help jerk inflation higher. But there were several special factors at work. Rocketing oil prices, huge public sector pay awards and a track record of double-digit inflation during the 1970s created the worst possible environment for a switch from direct to indirect taxation. Equally important, the switch was much too sudden. The real receipts of VAT could be doubled over 10 years if the taxation were limited to about £2bn (in 1985 pounds) a year. The annual increase in retail prices would be less than 1½ percentage points—less than the impact of a typical Budget.

The concern about the consequences for income distribution is also misplaced. At present, VAT is a slightly progressive tax: the average rate paid rises with income.

Critics are right to point out that if big items such as food and fuel, which figure heavily in the budgets of the poor, were subject to VAT, the tax would become regressive. But the progressivity of regressivity of an individual tax is of little consequence: what matters is the overall impact of the tax and benefit system on personal income.

Provided the receipts from broadening VAT or increasing its rate are used to raise income tax thresholds and to increase social security benefits, it should be possible to protect the poor.

Mr John Kay and Mr Evan Davies of the Institute for Fiscal Studies* show in a forthcoming paper how the VAT base can be extended and the progressivity of the tax system simultaneously enhanced. In the IFS proposal (which does not consider the question of raising the rate of VAT) the cash raised by imposing VAT at 15 per cent on commodities currently zero-rated is used to pay for a 19 per cent rise in tax thresholds and child benefit and a 10 per cent increase in pensions.

The table shows the results. The net effect is that households with weekly incomes of less than £125 are better off while households receiving £175 or more are worse off. The low paid, those with children and those on benefit gain more, respectively, from higher thresholds, higher child benefit and higher social security payments than they lose from the broadening of VAT to things like food and fuel. Of course, with such a crude form of compensation, some household types, for example single pensioners, are unequivocally worse off. But more precise compensation could be devised if the scheme became a realistic prospect.

The extension of VAT and the raising of its rate are desirable for two main reasons. The underlying rationale in each case is fiscal neutrality—the doctrine that taxes should not unnecessarily interfere with personal or corporate decisions.

● Any income tax interferes with economic decisions in a fundamental way: the trade-off between current consumption and future consumption made possible through saving and investment is distorted. The effect of taxing the return on saving, which is made out of taxed income, is to present savers with a post-tax return which is well below the yield of the investment they are financing.

A switch from direct to indirect taxation reduces this distortion and could result in a beneficial rise in saving and investment in the UK in the medium-term. It would be a significant step towards one of the main aims of the Meade Committee in 1978—a tax system which "levied a charge on what people took out of the economic system in high levels of consumption rather than on what they put into the system through their savings and enterprise."

● The broadening of VAT as opposed to increases in its rate, is desirable in its own right as a step towards fiscal neutrality in the taxation of commodities. The present, haphazard taxation of only about 50 per cent of consumer spending results in big distortions: the Government is, in effect, arbitrarily encouraging the production and consumption of some items but not others.

The goal of fiscal neutrality may sound obsessive but this is mainly because we start from such a distorted tax base. It is true that small deviations cannot cause much loss of efficiency and it is undeniable that if a particular industry is examined in isolation an apparently strong case for an exemption can often he made.

Roger Taylor

Obstacles to fiscal reform: Margaret Drabble, Hammond Innes, Lady Antonia Fraser and Gyles Brandreth in a recent protest

The uniform taxation of commodities makes so much administrative and economic sense that it is hard to understand how special interest groups have been so successful in defending their privileges. Two main arguments against the imposition of VAT (besides the worry about income distribution dealt with above) are sometimes cited: either value added would be impossible to measure or the commodity in question is particularly worthy.

Financial service companies—banks and insurance brokers for example — have tended to shelter behind the claim that it would be impractical for them to pay VAT. It is true that banks earn most of their profits through an interest rate turn (the difference between borrowing and lending rates) which would not count as a sale for VAT purposes.

EFFECT OF EXTENDING THE VAT BASE AND RAISING TAX THRESHOLDS AND SOCIAL SECURITY BENEFITS

Household type	Gross household income per week (£)					
	Up to 55	55-85	125-175	250-400	Over £400	All incomes
Single person	−0.02	−0.07	−1.18	−1.68	−2.52	−0.75
Married couple, two children		3.00	−1.00	−3.04	−6.16	−1.18
Single pensioner	−3.02	−3.46	−4.43	−5.65	−6.52	−3.28
All households	1.28	1.60	−0.30	−1.13	−3.35	−0.01

Source: IFS

But each concession raises the pressure for further even less justifiable exemptions and the result is an unacceptable distortion of economic decisions.

Mr Davies and Mr Kay illustrate the extraordinary capriciousness of VAT when they point out that oranges but not orange juice, childrens clothing but not perambulators, and books and magazines but not theatre tickets are zero rated for VAT. "Why are French lessons exempt if provided by Eton, or Madame Fifi, but not by Berlitz?"

Tentative steps to extend VAT, such as those made by Mr Nigel Lawson, the Chancellor, in the last Budget have in some respects made VAT even dottier. Hot takeaway pizzas are taxed but not pissaz bought in supermarkets and heated at home. The extension of VAT from home repairs to home improvements has eleminated one battle-line but created a new one: is the impovement to an original or additional construction?

But this is not a fundamental difficulty. Value added is, by definition, the sum of wages and profits and this is obtainable in all industries from companies' reports and accounts. VAT could be collected from financial service companies much as corporation tax is collected.

There is a further snag: financial services are exempt from VAT under the terms of an EEC directive. Even this is not quite the telling objection to long-term reform claimed by Treasury officials. EEC law is usually cited as a reason for doing nothing when a national government has domestic reasons for inaction. Why are Treasury mandarins not already in Brussels putting the case for reform?

The argument about impracticality has a little more force in the case of housing and construction. Indeed, Mr Davies and Mr Kay are sufficiently worried by the problems — principally the fact that assets made before the introduction of VAT (the bulk of the housing stock) would be exempt from the tax—to conclude that VAT "would not be a satisfactory way" of taxing these items.

This is an unusual admission of defeat by the IFS and may not be warranted. Why could not VAT be levied on a measure of the annual consumption of housing (both old and new) by home owners? After all, the imputed income from home ownership was calculated until 1963 in order that Schedule A income tax could be levied on it.

The argument that some commodities should be exempted from VAT because they are worthy or meritorious is even weaker than that of impracticality. How can anybody seriously maintain that private health and education should be exempt from VAT, especially when good public sector substitutes exist? Why should burial and cremation be taxed less heavily than other services?

Lady Antonia Fraser, Philip Larkin and Sir Andrew Huxley, the president of the Royal Society, may not like it but their argument about the unique qualities of books is no more convincing. Even if it were up to the Government to decide what is worthy, help is best provided, if needed, by specific subsidy.

Quite apart from the advantages of fiscal neutrality, why should taxpayers be asked, through the zero-rating of publishing for VAT, to subsidise Mills & Boon fiction or soft-core pornography? The fact that historical biography, poetry and scientific research will be helped in the process is hardly compelling.

To claim, as some serious economists do, that books because they have a value to the community over and above the benefit to the individual consumer is no more convincing. Such a contention would also justify a concession for jogging equipment and make-up: by improving people's appearance these benefit the community as well as the individual purchaser.

At the end of the day, Britain and many other industrial countries rely to a quite disproportionate extent on direct taxation not because there are serious obstacles to a massive increase in indirect taxation but because politicians and civil servants lack the energy and ingenuity to do anything about a tax system, which like Topsy, "just grow'd."

The reliance on income tax was not planned: it just happened. The case for taxing spending is not invalidated by worries about inflation, income distribution or the supposed impracticality and unfairness of extending VAT. But a substantial switch to indirect taxation will not happen of its own accord—it must be planned.

The Thatcher Government, with the medium-term financial strategy, has recognised the need for a long-term view in macroeconomics. It could show the same measured approach in microeconomics. In the forthcoming Budget, Mr Nigel Lawson, the Chancellor, could, for example, set a series of medium-term goals for tax reform.

Why should burial be taxed less than other services

Fiscal change has to occur in a slow and carefully controlled manner if unpleasant side-effects (for instance the inflation sparked off by the 1979 VAT increase) are to be avoided. The plea, for example by newspaper proprietors, that the extension of VAT would cause bankruptcy and hardship is not an argument against extension as such but it does underline the importance of a measured approach.

If a substantial switch to indirect taxation is to be contemplated, the first priority must be the broadening of the VAT base. Until this is achieved, any increase in the rate of VAT would exacerbate the capriciousness of the tax. But once a fully comprehensive base is in place, the scene would be set for a really significant reduction of direct taxation involving, perhaps, the doubling of VAT receipts over a 10-year period.

Extending the VAT Base, by E. H. Davis and J. A. Kay, Fiscal Studies, February.

Men and Matters

Saba's broad church

ICI knew it was getting one of Japan's best-known businessmen when it persuaded Shoichi Saba, president of Toshiba, to join its board as a non-executive director.

What it may not have appreciated was that it was also acquiring the services of a rare breed of Japanese—a Presbyterian. Saba, aged 65, who has been Toshiba's boss for the last 4½ years, is the son of a Presbyterian Minister and himself serves as an elder of the kirk (the Scottish overtones persist) in Tokyo.

Though, in typical Japanese manner, he has been a one-company man all his working life there are other things about Saba, besides his Presbyterianism, which do not conform to the national stereotype.

While most Japanese corporate heads tend to be generalists he has steadfastly remained true to his discipline, engineering, and says he is an engineer through and through.

Recently Saba, who speaks excellent English, learned in America, has been expressing greater interest in Britain. This is partly a result of Toshiba's UK investments. It may also owe something to the close relationship that has been forged with the British Embassy in Tokyo.

The former British Ambassador to Tokyo, Sir Hugh Cortazzi, became a close friend and it was perhaps as a result of Sir Hugh's known passion for improved Anglo-Japanese exchanges that Saba established the Toshiba fellowship. That endowment allows a couple of British engineers to spend a year working with Toshiba in Japan.

Saba will not confine himself to the ICI boardroom on trips to Britain. He is a keen concert-goer and will probably relish the fact that in London performances start at a reasonable hour —unlike Tokyo where the first chord normally rings out at 6.30 pm prompt.

He may even find time for his preferred sport—sailing.

"Hey, Lord Stockton's speech is on Top of the Pops"

Dighton's renewal

Compared with the massed ranks of the American management consultants the home-grown British companies appear as a small and usually clubbable sector.

That makes the more remarkable a schism at one member, the Corporate Consulting Group, which has scattered partners and accounts.

John Scott-Oldfields, one of the founders, remains in charge while his erstwhile senior partner, Leslie Dighton, has left, taking with him two other partners, Tim Coldicott and Jim Elson, to start a new firm called Corporate Renewal Associates.

Dighton, aged 47, an LSE economics graduate worked in line management for Shell before helping set up Corporate Consulting Group in the early 1970s. His new company is starting with three big clients he kept after the split—the Post Office, General Electric of America and the National and Provincial Building Society.

Basic to Dighton's management consultancy approach is his optspoken criticism of "the awfulness of the ingrained culture of British industry." The "Renewal" part of his new firm's title indicates his preference for new perspectives.

Within the next few months he is planning to build up a team of some 40 like-minded management reformers.

Big Blue rules

Chosen on Saturday night as the next premier of the Canadian province of Ontario, Frank Miller has an overriding concern. He has to keep his Progressive Conservative Party in power until 1993 in order to notch up a remarkable continuous half-century in office.

The Ontario Conservatives are the envy of the western world's political parties. "They have won a dozen consecutive elections in the past 42 years with just three leaders in 36 years.

The secret of the party's successes is embodied in Miller's predecessor, Bill Davis, who is retiring after 14 years

Davis, who is already a legend in the province, has made a virtue of blandness, carefully staying within the shifting mainstream of public opinion in Canada's most populous and industrialised province.

Guided by frequent opinion polls, and backed by the resources of his party's vaunted Big Blue Machine, the pipe-smoking, sports-loving Bill has managed the rare feat of keeping most of his constituents happy for most of the time.

Though usually pro-business the Davis government had no qualms about buying a 25 per cent stake in a large oil company, or imposing rent controls. He won more friends this month when, in spite of commitments to curbing public spending, he unveiled plans for a new domed stadium of majestic proportions in downtown Toronto.

Miller, aged 57, a car dealer and a resort operator before he entered politics, shares Davis's small-town family values. But Miller, who is currently Ontario's industry and trade minister, may find it more difficult to maintain the Conservative dynasty. He appears more committed to a rigid conservative ideology.

For instance, he is already calling himself Ontario's Ronald Reagan.

Ancient rights

Publishers Weidenfeld and Nicolson has a sharp eye for a commercial opportunity. Which is why Douglas Howell, a senior press officer with Central Independent Television, has gratefully accepted a siezable cheque for a book he wrote 22 years ago and had long since written-off as a money-earner.

When David Roberts of Weidenfeld and Nicolson was looking through old book lists he noticed Ruth Ellis by one Robert Hancock, published in 1963.

Ruth Ellis, the last woman to be hanged in Britain, is in the public gaze again because of a new film, Dance with a Stranger.

W and N contacted the author —in real life Douglas Howell— and did a swift deal. The title is to be changed to Ruth Ellis— The Last Woman to be Hanged. It will be published in paperback without a word being changed, and a hardback deal has been made with a bookclub.

Howell covered the Ruth Ellis trial in 1955 for the old Women's Sunday Mirror and wrote the book later. He recalls the paper paid £1,500 at the time for her story and bought "the best defence money could buy—Melford Stevenson, Sebag Shaw, and Peter Rawlinson."

Howell, who retires later this year, says of the film, "It's execellent. But very soft focus. The real Ruth Ellis was a harder, tougher person."

Observer

Another side of Helmut Schmidt

And he shall have music wherever he goes . . .

Politics are not everything for the former Chancellor, as this extract from **Jonathan Carr's** book shows

IT WAS not all politics! Despite election campaigns and coalition strains as well as international economic and strategic problems, Schmidt still found time for another, less hectic, world. His surprising appearance as speaker at a conference on Kant has already been mentioned. But he emerged in a still more unusual role during a trip to England in December 1981, during his last term as Chancellor. One journalist who got wind of the visit in advance sought to find out the point of it from a Chancellery official and was told "to record Mozart." That wildly unlikely explanation turned out to be true.

Schmidt went to Abbey Road studios in North London with two young pianist friends, Christoph Eschenbach and Justus Frantz, and recorded Mozart's *Concert in F Major for Three Pianos* (KV242) with the London Philharmonic Orchestra. All three devoted their earnings to Amnesty International.

Schmidt is no Paderewski (to *name one statesman* who was at the same time a master pianist) and has no illusions that he ever will be. Hence, when Eschenbach and Frantz first suggested recording the Mozart concerto, Schmidt was inclined to turn down the idea. But the more he thought it over the more he felt attracted by the challenge.

He had been fond of music ever since his Hamburg childhood, with the madrigal singing at home and the piano lessons at the Lichtwark-Schule. Even as minister and government leader he occasionally found a few minutes in the evening to sit and strum at the piano. He likes Bach above all, for the clarity and logic of the writing, the emotion which did not overwhelm form. The elevated lightness of Mozart was less close to *his* own temperament and a recording naturally a very different propostion from picking out pieces privately at the keyboard. True, the "third piano" part of the Mozart concerto can *be mastered even by* those whose fingers are none too nimble, but a good sense of timing and rhythm, concentration and teamwork are essential all the same.

Schmidt finally dropped his reservations, practised hard and the recording sessions went well; so well, in fact, that the Eschenbach-Frantz-Schmidt trio later recorded the work again, this time in Zurich for television. At the Zurich rehearsals, the shirt-sleeved Schmidt conveyed so deep an air of concentration and professionalism that a reporter was moved to ask whether he planned to develop a second career as a pianist. "I fear, sir," replied Schmidt with heavy irony, "that it is just a bit too late for that." Not everyone noticed the irony, however, and the remark helped add to the legend that there was absolutely nothing Helmut Schmidt felt he could not do — given time!

Quite apart from his own pianistic efforts, Schmidt held "house concerts" in the old Chancellery building, the Palais Schaumburg, while he was gov*ernment* leader. They were scheduled for Sunday evenings (the moment when Schmidt was least likely to be called away by affairs of state) and were given little publicity. Any guest, how*ever eminent, who tried to use* the occasion too obviously to talk about politics tended not to be invited again.

It was thanks to four string players from the Israel Philharmonic Orchestra that those Sunday musical oases emerged in the desert of political Bonn. A few months after he became Chancellor, Schmidt was offered a house concert by the four Israelis. Behind the offer was the hope that those who attended might also give financial and other support to the orchestra. Schmidt at once liked the idea, perhaps because of his own part-Jewish background as well as his belief that the orchestra deserved backing.

That first concert, held in January 1975, was followed by about a dozen others over the years. The range was wide — from Bach to Bartok, from Telemann to Villa-Lobos — and the standard of performance high. There were expected triumphs from world famous artists like the violinist Yehudi Menuhin; and there were happy surprises, for example from the outstandingly gifted but relatively little-known Czech pianist Ivan Moravec, who delighted his audience with a concert of Beethoven, Schumann, Debussy and Janacek. Afterwards, Schmidt sat up talking with Moravec until after midnight, apparently oblivious to his heavy political schedule only a few hours away.

Alongside his fondness for music, Schmidst has a special *love of the visual arts.* That too dates back to his early years —the schoolboy talent for drawing, the thwarted ambition to become a town-planner and the admiration for painters the Nazis called degenate. While on pre-war military service in Bremen he often spent the little spare money he had on what amounted to weekend artistic pilgrimages. He would take a train into the country, then walk for miles across the flat, swampy North German countryside to the villages of Worpswede and Fischerhüde where many painters and sculptors had made their homes. For a couple of days at a time the military and the Nazis seemed far away.

For Schmidt in those days Art was *both a hope and a* refuge. Later, as parliamentarian and minister, he wanted to show his appreciation of what Art had given him, and above all to salute those painters who had suffered under the Nazis. But it was only after he became Chancellor that he got a really good opportunity—both because of his influence and because of the new building into which he and his staff moved.

For his first two years as government leader Schmidt had precious little room in his Chancellery, the Palais Schaumburg, for art exhibitions. The move in 1976 to the new Chancellery changed all that. The seemingly endless corridors and spacious offices cried out for paintings and sculpture and Schmidt seized the chance. On the wall opposite the desk in his own office, Schmidt set a particularly fine seascape by Emil Nolde, the German Expressionist whom he most admired. Pictures by other Expressionists, including August Macke and Franz Marc, were placed in the cabinet room after an unexpected, intense meeting between Art and Politics. Schmidt had called in experts to recommend which paintings might be hung where. Suddenly a policy talk between senior ministers became necessary at the same moment. Experts and ministers found themselves together in the same room, and for more than two hours they swapped impressions of colours, positioning and lighting.

Schmidt put on about ten major exhibitions in the new Chancellery during his term as government leader. They began with paintings *from* the Berlin of the 1920s and continued with, among others, fine collections by Max Ernst, Nolde, Macke, Kollwitz and Dolbin. The most personal was a display of works by those who lived and worked in Schmidt's beloved Worpswede. The Chancellor opened each exhibition himself with a speech to up to 1,000 guests. When he arrived he already had a heavy day's work behind him, and looked tired and often grim. But from the moment he began with the greeting '*Liebe Kunstfreunde*'—'Dear Friends of Art'—his weariness vanished. After the speech he went from picture to picture, arguing points of detail. The longer he stayed the more animated he became.

Schmidt constantly rejected the view that he was trying to give the Germans "cultural leadership." He stressed that, *in the light of the Nazi experience*, any political leader had to beware of the temptation to thrust his personal artistic preferences down the throats of his countrymen. But with both the semi-private concerts and the art exhibitions he wanted at least to offer a signal for the receptive. "I would like people to have a true picture of Germany," he said once, "and not just one determined on the one hand by Holocaust on *television* and on the other by an efficient economy and armed forces."

In fact, by far the biggest art work at the Chancellery is not by a German but by an Englishman, Henry Moore. It is the huge bronze sculpture "Large Two Forms" which stands on the Chancellery lawn; a symbol, as Schmidt put it, of "nature and intelligence, of power and elegance — of the contrast between those elements and, at the same time, of the possibility for harmony between them."

Schmidt and Moore first met in Bonn in 1977 to discuss prospects for a sculpture and got on well right away. Within a few weeks the Chancellor had paid a (largely unnoticed) return visit to the 79-year-old artist's Hertfordshire home to follow up the idea. Two years later, "Large Two Forms" was formally inaugurated in the Chancellery grounds in Moore's presence. For Schmidt it was a special satisfaction to have acquired, in personal friendship, a major work from an artist who nearly four decades earlier had produced such moving "Shelter Drawings" — of London under the Luftwaffe blitz.

Would that Schmidt had always got on as splendidly with British politicians as he did with Henry Moore. Soon after "Large Two Forms" was in place, the Conservative Prime Minister, Margaret Thatcher, visited Bonn to seek Schmidt's aid in winning a better European Community budget deal for Britain. Schmidt felt the talks got nowhere — a "wholly wasted day," in fact. That evening, at a supper for the *visitors, he sought to retrieve* the situation by abandoning his official text about politics and stressing instead the cultural links between Germany and Britain. Naturally Moore and his "Large Two Forms" *came* in for special mention.

Mrs Thatcher did not take the outstretched olive branch. She agreed that the "Large Two Forms" was most impressive—*far bigger, in fact,* than a work of Moore's she had seen at home. Indeed, the Moore sculpture which she knew bore about the same relation to the one on the Chancellery lawn as Britain's Gross National Product did to German GNP. "And while we're on the subject of money, Chancellor. . . ."

Helmut Schmidt, by Jonathan Carr; published by Weidenfeld and Nicolson; Price £12.95p.

Lombard

Action on pound, jobs and pay

By Samuel Brittan

THE TREASURY plans to publish this week its contribution to the debate about the link between pay and jobs. As its main author, J. Odling-Smee, is a respected macroeconomist in his own right, the contribution is likely to be an important one. But inevitably, it will give rise to a lot of further *argument* and distract attention from the far more *important matter of policies* to discourage pay increases which price people out of work.

The fundamental problem lies in the essence of collective bargaining, which is conducted in the interests of the majority who retain their jobs rather than the minority who remain unemployed. It lies, too, in the lazy thinking affecting employers who think they are socially virtuous in paying "good wages" while taking on as few workers as possible.

Basic reform is a long way off (as demonstrated in my Financial Times pamphlet, Jobs, Pay, Unions). What might be possible now is a short sharp shock which would discourage those employers who pay too much and encourage those who pay less, and are therefore ulti*mately able to take on more* workers.

Such a measure does exist, which would act through the price mechanism and profit motive and encourage employment in the private market sector, where the Government maintains it wants the jobs to be. The measure is none other than the Layard proposal for a tax on pay increases. This suffers from having been around a long time and from the dislike of many policy-makers for re-examining a proposal which they have previously rejected.

The idea has been canvassed for many years, especially in the U.S. under the name of TIP (tax-imposed incomes policy). Layard's contribution has been to emphasise that the ultimate purpose of TIP is to provide employment and that it cannot be a substitute for counter-inflationary financial policies. He has also insisted that the proceeds of the tax should on no account be merged with government revenue, but *returned to employers via*, for instance, a rebate of National Insurance contributions. The net effect would be to transfer cash from employers who concede high pay awards to those who do not, and thus give the whole system a twist towards lower awards.

Although Layard incorporates a norm, above which the tax will be levied, I see no need for this. All that is needed is a tax geared to payrolls per head; the size of the rebate would be determined as the wage round progresses. Nor do I see any reason to involve any but the largest companies, as the intention is mainly to send out a signal.

But my biggest difference with Layard is that he sees TIP as a long-term system. In that form, it would indeed be open to all the objections that employers have advanced when they have heard such ideas from Alliance spokesmen. Avoidance techniques would be fairly easy, and distortions and inefficiencies would arise.

It is all the same inconceivable that the top couple of hundred British companies would find it worthwhile to rearrange all their affairs in a *glare of hostile publicity* to circumvent an emergency measure imposed for no more than a year or two—which is how I see TIP. The hope would be that the shock of the move, *plus the reality of very low pay* awards, would weaken the wage round mentality. In the meanwhile, the Nominal GDP increase implicit in the Government's financial strategy would have a better split between output and jobs on the one hand, and pay and prices on the other, than otherwise seem likely.

In arguing for TIP with some of the Government's more free market advisers a few weeks ago, I complained that unemployment was not treated as a genuine emergency in the way that sterling crises were. I could not resist saying: "If the pound comes under real pressure, you will see how soon policies will bend." In this vindicated prophecy lies a faint gleam of hope.

For although the underlying argument for TIP concerns jobs, a successful TIP would also have a short-term beneficial effect on inflation and thus could hardly be other than good for sterling. Is not this *something* that a Chancellor, who obviously still places very limited faith in central bank intervention, should look at again as a genuine if drastic price mechanism aid on both the sterling and the jobs front?

Letters to the Editor

Smaller drug companies

From the General Secretary, Association of Independent Businesses.

Sir,—Lisa Wood (January 24) reports on the views of general practitioners to the reduction of the drugs they can prescribe under the National Health Service. While this association *is not qualified* to comment on the medical issue involved, there are damaging economic consequences resulting from this proposal which deserve urgent consideration.

In 1981, Mr Jenkin, the then Secretary of State, gave an assurance that the right of a patient to be treated as his or her doctor recommended would be upheld. Based on this assurance *small drug producing* companies decided to invest in the development of new drugs. Unlike the larger companies, with large financial reserves and shareholders to raise extra capital, the smaller company has only its profits to finance such research and development.

This sudden decision, some three years later, to completely reperse the Government's policy —a decision which was apparently taken without any consultation with the industry—will have serious consequences for the smaller drug producing firm.

If the number of drugs which can be supplied under the NHS is so drastically reduced the demand for many of the products of the small firms will fall, their profits will be greatly reduced, their work on new products will be stopped and inevitably the companies will fail, leading to redundancies and greater unemployment.

Had Mr Jenkin not given such a positive reassurance in 1981 many smaller firms in the industry would have made very different plans and would not be facing this very serious position today. While the need for a cost effective NHS is appreciated, present plans will lead to the collapse of the smaller drug producer through no fault of his own. He based his market strategy on a promise given by a Cabinet Minister only to see that provise revoked three years later.

J. B. M. Donnellan,...
108, Weston Street, SE1

Capital inflation tax

From Mr J. de Rivaz.

Sir,—I was most impressed with the FT Ordinary Share Index adjusted for inflation graph on page one of January 19. It would be a good idea to print the adjusted figure in big print every day on the back page in Lex.

It was only a pity that you *did* not put in *alineto* mark the introduction of Capital "Gains" clearly that the present form of the indexation of the tax Tax. This would have shown does very little to eliminate *the injustice of taxing infla*tionary gains. It merely gives accountants and other professional advisors more highly paid work which creates no real wealth.

If the *Government* is *really* against a fully fledged expenditure tax (where all investment is tax deductable and all dis-investment is taxable), then the best answer to capital "gains" tax would be to make exempt all investments held for *longer than a fixed period.* Five years is the qualification period for business expansion scheme holdings, and could be a possible figure for Capital "Gains" Tax.

John de Rivaz,
West Towan House,
Porthtowan,
Truro,
Cornwall.

Efficient markets

From Mr N. Firth

Sir,—I feel that the comments of Mr Arthur Carter (January 12) and Mr David Damant (January 19), inadequately state the "efficient market" case.

The concept implies that a security offers no more than a fair return, commensurate to the risks it bears. High risk securities are therefore not undervalued when their additional risk is incorporated into the appraisal process. Any "apparent" undervaluation to which the gentlemen refer, could be interpreted not as an example of market inefficiency, but a consequence of its efficiency.

Institutional investors are not particularly happy to see anybody making "profits." They would much rather be making these themselves — *if* they could. The concept implies that they are unlikely to be able to do so on a regular basis. Those managers with a particular responsibility to adopt a low risk profile, simply cannot (or dare not) hold highly volatile portfolios. Although these might be expected to perform "well" in bull markets their problem is identifying the bull.

Nevertheless, in the wake of our market's meteoric rise, investors will be subjected to a barrage of highly seductive performance statistics from those institutions.

The corollary of the efficient market concept is that investors *should not consider perform*ance, per se, but rather performance relative to the risks borne by the fund's portfolio. Only then can they evaluate the guile (or good fortune) of their *managers*.

Nicholas Frederick Firth.
7, West Street,
Mexborough, S. Yorks.

Indian rope trick

From the Assistant Vice-President, Bank of America National Trust and Savings Association.

Sir,—The reasons given by financial journalists for specific market movements are a constant source of amazement. According to your "Market report" of January 23, "Motivating demand for equities was the optimistic trend of longer-term UK indicators . . ." I presume the reference to "longer-term UK indicators" was specifically to the longer-leading indicator published by the Central Statistical Office the previous day.

As Mr Max Wilkinson, your Economics Correspondent, correctly noted on January 22, the *rise in the longer-term lending* in November and December was, to a large extent, a reflection of the rise in the stock market over this period. One cannot help feeling that the Stock Market is currently performing the Indian Rope Trick with some skill.

George S. Hatjoullis,
1, Watling Street, E.C.4.

Multi-fibre arrangement

From the Director, Centre of West African Studies, University of Birmingham

Sir, — Mr Ian Bradley (January 22) commits a fallacy in arguing that the abolition of the multi-fibre arrangement would benefit consumers in Great Britain by transferring quota rents from the newly industrialised and less-developed countries.

Countries as recipients of quota rents or any other form of income are a figment. Incomes are received in fact by workers and owners of property. A restrictive agreement in trade benefits the incomes of some producers and traders at the expense not only of consumers but also of producers and traders who are excluded from, or whose activities are limited by, the agreement. Thus the losers from the MFA are to be found in developing countries as well as in Great Britain, and the same is true of the gainers. Abolition of the MFA would re*move the quasi-monopolistic* power of licensees under the arrangement to the benefit of lower-cost overseas producers as well as of British consumers.

The debate over the MFA concerns *the division of income* between lower-cost and higher-cost producers of textiles and clothing, wherever they are to be found, not the division between deevloping and industrialised countries.

Douglas Rimmer.
P.O. Box, 363,
Birmingham.

Lack of energy policy

From Mr P. Spencer

Sir,—We constantly read about oil and gas policy, oil cartels coal subsidies, investment comparisons between nuclear and coal power stations. A confusing mess even to those who profess to be "experts" in a constantly changing world market.

We witness the nationalised energy giants battling it out to increase their market share *claiming their particular fuel* is cheaper or better, spending very substantial sums on marketing and juggling rates to capture what should logically often be a competitors market.

All this is taking place under a dark cloud, a well founded reputation of being one of the most inefficient users of energy. More the pity since we are most fortunate in being self sufficient in all fossil fuels. Who *is responsible for this* state of affairs?

There is no private or public company with any bite or financial muscle, set up to establish cogeneration heat and power *facilities as a utility service to* industry or community as is becoming increasingly popular in the more successful countries. Furthermore no Government including the present incumbent has given any positive incentive for either public or private concerns to do so, except for the token 1983 Electricity Act which gives some legal protection.

What a sad and self defeating *situation our energy economy* is in. Prime Minister do something.

Peter Spencer.
9, Links Close,
Ashtead, Surrey.

FINANCIAL TIMES
Monday January 28 1985

Terry Byland on Wall Street

Computers come in from cold

THE renewed wave of optimism on Wall Street, now spreading rapidly from the bluechip issues and over the full range of the stock market, has brought the technology sector back in from the cold. Once again this sector is surging ahead of the rest of the market as investors expect the computer industry to prove the standard bearer of an expanding economy.

Since the beginning of the year, technology stocks, as measured by the Hambrecht Quist technology stock index have risen by 15 per cent, against 6.3 per cent in the Standard & Poor's 400 index, or 5.5 per cent on the more narrowly-based Dow Jones industrial average.

That seems remarkably forgiving in view of the slaughter in technology stocks in late 1983 and 1984. The Hambrecht index fell 25 per cent last year, and the new-issue market still bears the scars left by the 1983 crop of newcomers which failed to emulate Apple Computer or Commodore International.

But the technology sector covers a wide spectrum of both corporate size and market area. The Hambrecht index, comprising 164 stocks and soon to be increased to about 180, leans towards the smaller, west coast companies which made the running two-and-a-half years ago.

The major computer groups, IBM, Burroughs, Honeywell and NCR, have remained more closely in step with the rest of the market, helped by general satisfaction with the results for last year's final quarter.

The Standard & Poor's batch of technology indices shows that the hottest stocks since the beginning of the year have been the smaller semiconductor and software issues. Its computer and business equipment index, including IBM, has gained 8 per cent – or, without IBM, 5.6 per cent – while the semiconductor and software sector indices have risen more sharply.

On January 1 there seemed no reason for undue excitement in technology stocks. Dean Witter Reynolds commented that the shake-out in the industry was likely to continue. Danger points might be any slowing in capital spending, a tightening of foreign competition or continued strength in the dollar.

The strength of the dollar and the pressures of foreign competition have not abated since the beginning of the year. Profit margins at the hardware groups have remained under pressure as new companies try to force their way into a market characterised by price-cutting by the major manfacturers. For the future, AT&T has joined the computer wars, adding a further huge slice of potential capacity and investment.

Now, Apple Computer seeks to establish itself in the business computer markets.

At the consumer end of the computer industry, problems also continue to press. The withdrawal of Coleco Industries from the home computer market has opened the way to another battle over market share, with Commodore International and its deadly rival Atari likely to clash horns.

Nor can the sector's problem companies be cancelled from the reckoning.

With these pressures at work, there is reason for raised eyebrows at the 15 per cent rise in some of the smaller semiconducter companies. The results from the sector for the final quarter of last year have suggested that the heavily overstocked inventories have been liquidated – but share prices have run ahead of any positive signs of expansion.

One reason for the caution in the market towards the end of the week was the realisation that a move above the Dow Jones industrial peak might spark off a rush of profit-taking. The leading technology issues would weather a bout of profit-taking on their 6 per cent to 3 per cent gains since January 1. But the 15 per cent rises in the smaller technology stocks would be much harder to resist, and some of the recent buyers could be in for a chastening experience.

Wall Street prices, Pages 24-25

EUROPEAN MANUFACTURING SEES SHARP RISE IN USE OF MICROELECTRONICS

A quiet revolution gathers pace

BY GUY DE JONQUIERES IN LONDON

A QUIET technological revolution appears to be gathering pace at the grassroots of Europe's manufacturing industry, despite talk of a continent paralysed by economic "sclerosis."

A survey sponsored by the government and carried out by research institutes in Britain, France and West Germany suggests that the rate of application of microelectronics in manufacturing in all three countries has begun to accelerate sharply.

German manufacturing industry, where 51 per cent of all plants employing more than 20 people are using microelectronics, is more advanced than Britain with 47 per cent and France with 38 per cent.

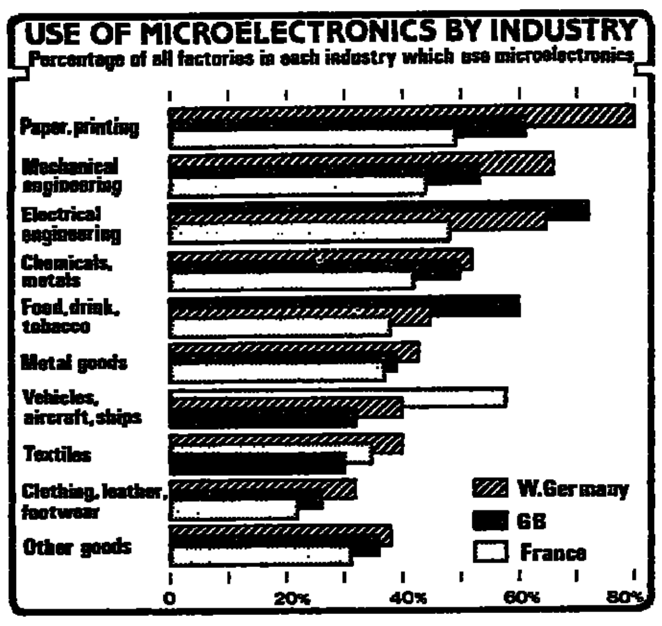
The survey, which covers more than 3,800 factories, says there is no evidence that microelectronics is "already a mass job killer." It estimates that the technology has caused 76,000 job losses in the three countries in the past two years – less than 5 per cent of the total decline in employment in their manufacturing industries.

In Britain, for example, 38 per cent of the output of factories surveyed consists of products incorporating microelectronics, against only 20 per cent two years ago. In two years the proportion is expected to rise to 43 per cent, reaching a maximum potential of 57 per cent. The pattern in the other two countries is broadly similiar.

Between a third and a half of factories in the three countries are estimated to use microelectronics in manufacturing processes, but application to products is far less common. In Germany, 47 per cent of factories are estimated to be applying microelectronics in their processes, against only 13 in their products.

The discrepancy is ascribed partly to the time needed to get products using microelectronics into production. More than a third of factories said they designed the microelectronics system they used in products, compared with only 12 to 15 per cent designing components for their process equipment.

Factory size emerges as one of the most critical factors in microelectronics applications of any kind. In all three countries, factories with more than 1,000 employees are three times more likely to use microelectronics in process than plants with less than 50 staff – and at least six times more likely to use the technology in products.



USE OF MICROELECTRONICS
Weighted for percentage of all establishments in manufacturing industry*

	Britain	West Germany	France
Product applications	10	13	6
Process applications	43	47	35
All applications	47	51	38
No applications	53	49	62

* Excluding establishments employing less than 20 people.

There are also important differences between the three countries. In Germany, it is estimated that about 5,000 factories are using microelectronics in products, which twice as many as in France and one-and-a-half time that in Britain.

In Germany the proportion of factories with fewer than 100 employeers using microelectronics in process is also far higher than in Britain and France, although in larger plants the proportions are broadly similar.

In seven out of 10 industrial sectors Germany has the highest proportion of factories using microelectronics. It is particularly advanced in the paper and printing and mechanical engineering industries.

Britain leads in electrical engineering and food, while France is well ahead of the two other countries in vehicles, aircraft and ships.

These figures do not correspond to the absolute numbers of users in each country because of differences in the size of the respective national industries and of the factories in each sector. Thus, while microelectronics are more widely used by the electrical engineering industry in Britain than in West Germany, the German industry is much larger.

Lack of technical expertise is the main problem cited in all three countries in applying microelectronics, although in Britain the proportion of respondents who mention it, 45 per cent, is slightly below Germany and France, where it is cited by 55 per cent and 51 per cent respectively.

In Britain, however, 43 per cent of respondents blame the economic situation as an obstacle, which is about double the proportion in the other two countries, and more British manufacturers are troubled by high development costs and the difficulty of raising the necessary finance than in France or Germany.

In contrast, lack of suitable software in Germany is considered a much grater problem than in the other two countries. Shopfloor and union resistance is regarded as a relatively minor difficulty, with the proportion of respondents who mention it ranging from 7 per cent in Britain to 16 per cent in France.

In Britain, 5 per cent of respondents see the attitude of top management as an obstacle to applying microelectronics. The survey suggests that the findings may understate the problem because many of those interviewed would consider themselves senior managers.

More plants in Germany employ microelectronics engineers than in Britain or France. Special staff training is also more common in Germany than in the other two countries.

According to the survey, the introduction of microelectronics has so far seems to have had only a marginal impact on employment. It estimates that in the past two years there have been 34,000 net job losses in British manufacturing industry as a result of the introduction of microelectronics, 30,000 in Germany and 12,000 in France.

In all three countries the annual rate of jobs decrease is put at less than ½ per cent of total manufacturing employment.

The survey warns, however, that the figures are more likely to underestimate than to overestimate the overall impact on jobs, and that the situation may become more severe in the future as microelectronics is applied more widely.

● *Microelectronics in Industry, an International Comparison. Published by the Policy Studies Institute and the Anglo-German Foundation. Available from: Policy Studies Institute, 1–2 Castle Lane, London SW1E 6DR; BIPE, 122 Avenue Charles de Gaulle, 92522, Neuilly-sur-Seine, France; VDI-Technologiezentrum, Budapesterstrasse 40, 1000 Berlin 30.*

THE LEX COLUMN

Price-capping at the Council

Decisions to be taken by the Council of the London Stock Exchange in the next few weeks will determine the future shape – and possibly even the future existence – of the central market for securities in Britain. The problem is that there are almost as many vested interests as there are members, and the debate so far has generated more jealousy and confusion than clarity.

The objective is to reform the constitution of the stock exchange to reflect the fact that the rights and obligations of membership are increasingly being based on corporate, as opposed to individual, members. This process has been under way for years. Firms were allowed to become limited liability companies as far back as 1968, and for the past decade, the exchange has financed itself mainly by means of a general service charge levied on the gross profits of member firms.

Within the next couple of years many of the biggest firms will become 100 per cent subsidiaries of outside companies. So the change in the structure of membership now needs to be formalised.

This is much easier said than done. The fact is that the exchange is still owned by its 4,500 individual members, each of whom holds one share. That does not give them any rights to income, since the exchange is a mutual undertaking which ploughs any surplus back into the enterprise. But they are liable for its debts, and they do own its assets.

These are considerable. The stock exchange tower is in the books at £90m, along with quite a large pot of cash. Then there are all kinds of fancy electronic gadgets. If individual members are to lose control over these assets, should they not – to use the going phrase – receive value in exchange for their ownership rights?

This argument tends to be expressed forcibly by smaller firms which feel most vulnerable to new competition. They also resent being asked to pay for new technology which, in their eyes, will be of primary benefit to newcomers and the existing big firms. They believe the newcomers should compensate them for the probable loss of business.

What has caused more resentment than anything else is that many of their rivals in the big firms have already received a pot of gold for selling out to outsiders. Putting a high price on membership looks their only chance to share in the bounty.

But on closer inspection, their case is not all that strong. The stock exchange needs the outsiders at least as much as they need the exchange. If the big investment banks are not encouraged to join, the chances are that they will simply set up shop outside. Moreover, the concept of ownership is far from clear. Nearly half the members are associates, who do not generally own their firms. Membership costs, which are modest, have remained unchanged for 10 years and are often paid for by the firm. New members do not directly pay for their share: instead, they must put £1,000 to the nomination redemption fund, which is as arcane as it sounds.

The stock exchange sees itself as a continuing institution. Why should the present generation receive a capital reward for what it has inherited from its forebears? There is a cruder way of asking the question, too. Why should members of a cartel which has been bust apart by deregulation deserve any kind of compensation at all?

The fact is, though, that any worthwhile reform of the constitution will require changes in the deed of settlement. That in turn will need the support of 75 per cent of members at an extraordinary general meeting, which will be seen as a vote of confidence in the exchange's whole approach to deregulation. As a matter of practical politics, members seem bound to be offered some form of compensation for surrendering their rights.

One suggestion is that the stock exchange should wind itself up, distribute its assets, and start again. Apart from the public relations consequences of such an assets strip, the idea would bring a heavy tax penalty. Capital gains tax would be levied on the sales, and the Council has been advised that the distribution to members would be taxed as income. No one has any real idea of what the payout per member would be, but it would be unlikely to get far into five figures.

The stock exchange, itself, will need all its present capital and more in the next few years to pay for its new trading systems. So any payout to members will have to be squeezed from some other source.

The proposal being debated last week was that each existing member should be able to split his share into five. As a "professional member," he would then retain one share and be free to sell the rest. The buyers would be firms which would be required to own a set number of shares in proportion to the size of their business.

The scheme would be structured so that small firms would not have to buy more shares than those already owned by their principals, whereas the big battalions and – especially – the newcomers, would have to buy a substantial number.

To ensure that prices did not get out of hand, the exchange would be required to issue new shares at a fixed price: £2,000 was one suggestion.

The idea is not as straightforward as it looks. For one thing, its impact on existing firms would be arbitrary. A firm like Hoare Govett, which happens to have relatively few members for its size, would have to buy a lot more shares than another large firm which just chanced to have a lot of members. Calculations on one set of proposals produced for the Council showed that firm A might have to buy 137 shares, whereas similar sized Firm B might have to acquire 340.

Moreover, such terms might make the entry fee much too high. A major new entrant might be forced to buy well over 500 shares. A third objection is that the scheme would represent a tax on growth. The more successful firms were in attracting new business, the more shares they would have to buy.

All kinds of ideas have been put up to deal with the anomalies, including – believe it or not – the possibility of issuing non-voting shares. The result is that the whole debate has become far too complicated. The Council is not so much split as confused.

It would be possible to do nothing at all, since 100 per cent outside ownership could be permitted without a change in the deed of settlement. But this would be unsatisfactory. The anomalies in the present constitution would remain unchanged, existing members would get nothing, and newcomers would not have the voting influence that their capital commitments would justify.

Any scheme is bound to involve a compromise. The best solution would be for the exchange to allow members to sell part of their shares, but to operate a top system that would ensure newcomers did not have to pay exorbitant sums (more than a very few hundred thousand pounds?) to join the club. Once the new system has settled down, the exchange could permit a free market in its shares. Anomalies among existing member firms could be offset by juggling with their general service payments. And no single firm should be allowed to vote more than 5 per cent of the total share capital.

Jacobs fights restructuring at Phillips

By William Hall in New York

MR IRWIN JACOBS, one of Wall Street's growing band of corporate raiders, has announced plans to oppose Phillips Petroleum's controversial recapitalisation plan designed to insulate the big Oklahoma-based oil company from the disruptive action of dissident shareholder groups.

Phillips' shares rose on Wall Street in heavy trading last week as speculation mounted that opposition to its planned restructuring in the wake of an unwelcome takeover bid from Mr T. Boone Pickens, another corporate raider, would soon lead to a counter-offer.

Several of Wall Street's professional arbitrageurs are known to have extensive positions in Philips's shares, which they acquired at higher prices than the current level. Phillips' shares fell sharply last month after the complex recapitalisation plan was announced. Several arbitrageurs are nursing very hefty losses on their investments and are known to be very unhappy about the plan.

Until Friday, however, several of the arbitrageurs whose names have been linked to Phillips, have refused to comment. Some may have used the recent rise in Phillips' share price to cut their losses, but Wall Street believes that there are still several investors holding big positions and they propose to actively oppose the recapitalisation plans.

Phillips' shares rose by more than $5 last week and closed at $48⅜ on Friday, capitalising the company at $7.5bn. Mr Pickens had offered $60 per share before agreeing to be bought out at around $53 for each pre-recapitalisation share.

UK unlikely to buy Sleipner gas

BY IAN HARGREAVES IN LONDON

THE BRITISH Government is expected this week to inform Norway that it is unable to approve British Gas's proposed $30bn deal to buy gas from the Norwegian Sleipner field.

Ministers are expected to discuss the matter in the next few days and their decision is due to be communicated to the Norwegians by Thursday – the deadline by which Mr Peter Walker, the British Energy Secretary, has promised a decision.

Although details of the response could be reshaped in ministerial discussion, there now appears to be no voice within the Government which favours the deal as proposed – a supply of gas in the 1990s equivalent to more than one fifth of Britain's needs.

It is agreed within the Government that the price of the gas – about $4.10 per million BTUs – although lower than a number of previous long-term international gas contracts, does not reflect the fall in oil and gas prices which has taken place in the year the Government has been studying the contract.

These changes have been magnified by the fall of sterling against the dollar. At current exchange rates, the Sleipner price is over 35p (39 cents) a therm. This compares with an average supply cost to British Gas last year of 13.3p a therm.

Norways appears already to have braced itself for a rejection of the Sleipner deal by outlining in London last week an alternative oil and gas development plan, which would bring forward a number of oil developments and allow the country to develop the large Troll oil and gas field at an earlier stage than previously envisaged.

It is possible that UK ministers are considering some other kind of deal with Norway. This could involve buying only a small part of the Sleipner field, which is divided into a number of structures, or possibly even sharing the purchase of the field with another continental European customer. This latter option appears somewhat unlikely, since continental gas utilities are suffering from excess supply, although if Sleipner were delayed, they could be interested.

Another possibility is for Britain to agree to transmit Norwegian gas from the Troll and Sleipner fields into the European gas grid.

The Netherlands has been promoting itself as Europe's "surge" supplier of gas – offering supplies on shorter term, more flexible contracts than is normal in the European gas business and charging a premium price.

What seems clear is that British Government policy is to be based upon a policy of maximum flexibility in gas supplies, so that more time is available to assess the scale of recent discoveries on the UK continental shelf. The most serious flaw in the 15-year Sleipner deal, so far as the Government is concerned, is its inflexibility.

Peace terms set out in British pit dispute

Continued from Page 1

The coal board will try to put Mr Scargill "on the hook" of a final deal. The board is determined to outflank him if he attempts to put himself at the head of a rejectionist minority when the board's final conditions are made clear.

● The board is in no hurry to settle, since in many pits where only a few miners have returned, the working miners have begged for more time to elapse before a deal is concluded. They want a least a substantial minority go back to provide protection in numbers against victimisation from those who stayed out to the end. The board thus believes it should stick out for the most unambiguous and advantageous deal even if the process is prolonged.

Even moderate members of the union's executive were saying last night that a change in union policy on pit closures could not be entertained. Mr Ted McKay, the North Wales area secretary, said: "Our resolutions against closures on economic grounds go back way before Arthur Scargill. None of us who have been the "militant moderates" could agree to change it. There would have to be a very special form of words to disguise that."

Mr Peter Heathfield, the NUM General Secretary, said that "if they (the NCB) think we can change policies going back over 30 years they're living in cloud cuckoo land."

It emerged yesterday that Mrs Thatcher will be satisfied if the union's willingness to discuss in principle the closure of uneconomic pits is included as one of the headings in the draft agenda which it is hoped to draw up in preliminary talks between the NUM and NCB tomorrow.

It was denied yesterday that this represented any softening of Mrs Thatcher's position. She said on Thursday that she was 100 per cent behind the idea of having something in writing so that there would be a clear basis on which talks could proceed.

There is no doubt, however, that the Government is worried that Mr Neil Kinnock, leader of the opposition Labour Party, will make political capital with allegations of Mrs Thatcher's intransigence. Over the weekend he accused her of "an instinct for malice that is nothing short of evil."

Mr Nicholas Ridley, Transport Secretary, who is close to Mrs Thatcher, tried to counter this impression yesterday.

He denied that the Government's aim was to humiliate Mr Scargill. But the coal board had said there could be no fudging and Mrs Thatcher endorsed that approach.

Lawson to face quiz on weak pound

By Philip Stephens in London

MR NIGEL LAWSON, Britain's Chancellor of the Exchequer, will today face close questioning on the Government's attitude to the continued weakness of sterling. This follows the pound's fall to a record low on Friday.

Sterling slumped to $1.1070 at the New York close as the dollar regained ground against most currencies. The pound was hit by renewed oil price fears ahead of today's Organisation of the Petroleum Exporting Countries talks.

Mr Lawson is due to appear before the House of Common's treasury and civil service committee, where MPs are expected to seek clarification on the Government's apparent change of heart on the exchange rate.

At the height of the sterling crisis two weeks ago the authorities pushed rates up to 12 per cent, and subsequently took the lead in securing an agreement among leading central banks to intervene against the dollar.

Mr Lawson is likely to face pressure to explain whether the Government now has an explicit exchange rate target.

Action on pound and jobs, Page 15

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Dubrovnik	R	11	52	Malaga	S	15	59	Salzburg	S	1	34
Algiers	S	18	64	Faro	S	13	55	Malta	F	15	59	Seoul	C	-2	28
Algarve	F	14	57	Florence	F	13	55	Manila	S	29	84	Singapore	F	31	88
Amsterdam	S	1	34	Frankfurt	S	2	36	Melbourne	C	20	68	Stockholm	S	-13	9
Athens	S	17	63	Funchal	S	18	64	Mexico C.	[illegible]	[illegible]	[illegible]	Strasbourg	F	4	39
Bahrain	S	20	68	Geneva	C	5	41	Miami	[illegible]	[illegible]	[illegible]	Sydney	F	24	75
Bangkok	S	32	90	Gibraltar	S	15	59	Milan	[illegible]	[illegible]	[illegible]	Tangier	S	19	66
Barcelona	F	14	57	Guernsey	C	6	43	Montreal	Sn	-14	7	Tel Aviv	S	15	59
Beirut	F	16	61	Helsinki	Sn	-22	-8	Moscow	[illegible]	[illegible]	[illegible]	Tenerife	[illegible]	[illegible]	[illegible]
Belgrade	F	5	41	H. Kong	S	20	68	Munich	[illegible]	[illegible]	[illegible]	Tokyo	C	22	73
Berlin	Sn	-2	28	Innsbruck	F	3	37	Nairobi	[illegible]	[illegible]	[illegible]	Toronto		—	—
Biarritz	S	12	54	Inverness	[illegible]	[illegible]	[illegible]	Naples	[illegible]	[illegible]	[illegible]	Tunis	[illegible]	5	41
Blackpool	Cn	-1	30	Istanbul	S	14	57	New Delhi	[illegible]	[illegible]	[illegible]	Valencia	[illegible]	-7	19
Bordeaux	S	9	43	Jersey	C	5	41	New York	[illegible]	[illegible]	[illegible]	Venice	[illegible]	12	54
Boulogne	C	2	36	Jo'burg	S	28	82	Nice	S	12	54	Vienna	[illegible]	15	59
Brussels	S	3	37	Las Palmas	F	20	68	Nicosia	[illegible]	[illegible]	[illegible]	Warsaw	[illegible]	5	41
Budapest	F	4	39	Lisbon	F	8	46	Oslo	Sn	-15	5	Zurich	[illegible]	5	41
B. Aires	R	23	73	Locarno	[illegible]	[illegible]	[illegible]	Paris	F	4	[illegible]			3	38
Cairo	S	21	70	London	F	2	36	Prague	C	-3	27			2	36
Cape Town	S	25	77	Los Angeles	C	18	64	Reykjavik	Sn	-5	23				
Caracas	C	25	79	Luxembourg	F	0	32	Rhodes	F	16	61				
Casablanca	S	14	57	Madrid	C	6	43	Rome	F	14	57				
Copenhagen	S	-7	19	Majorca	S	14	57								
Corfu	F	15	59												
Dublin	[illegible]	[illegible]	[illegible]												

Readings at mid day yesterday.
C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday January 28 1985

Prepayments vogue spreads to Euronote facilities

ALMOST NOTHING, it seems, is safe from renegotiation in the Euromarkets these days, writes Peter Montagnon in London.

With conditions continuing to tilt heavily in favour of borrowers, there has been a spate of prepayments in the floating rate note market over recent weeks. Now the same spectre appears to loom for an even newer and cheaper form of borrowing – the Euronote facility.

Last week saw the launch by Volvo, the Swedish car manufacturer, of a $300m package led by Bank of America that is designed to replace and increase a $75m Euronote facility arranged through Merrill Lynch in 1983. Now a similar exercise is under way for Alcoa of Australia which is raising $400m through Credit Suisse First Boston.

Alcoa will not yet reveal the precise terms of its new seven-year deal, but it shares a number of characteristics with the Volvo operation, including the fact that it will swallow and improve in the terms of an existing $105m Euronote facility.

Moreover, an indication of the degree to which the Euronote market has become cheap for borrowers is the opportunity offered by both packages for the borrowers to raise money in the U.S. commercial paper market as well as through the issue of Euronotes. Until now, the commercial paper market has usually been regarded as the absolute rock-bottom source of funds in terms of cost.

Now, however, some borrowers are finding that the terms on the two markets have moved so close that they want an opportunity to switch from one to the other, depending on conditions available at any moment. That has led the Euromarkets in a rapid progression away first from conventional Eurocredits through floating rate notes on finer and finer terms to Euronotes and finally to packages that increasingly include a commercial paper option as well. Even Denmark is now planning to tap the commercial paper market as the first sovereign borrower using its own name, rather than that of a state agency.

EUROBOND TURNOVER (nominal value in $m)	Cedel	Euroclear
U.S.$ securities		
Last week	7,787.5	12,698.4
Previous week	10,277.3	27,817.4
Other securities		
Last week	2,180.5	1,214.1
Previous week	2,192.0	1,838.0

But is this trend going to last? Some bankers believe that the market is in the process of over-reaching itself. With fees on Euronote facilities now down to 10 basis points or less, the return on underwriting has become so marginal as to make the business unattractive, they argue. That should mean that in the not too distant future, it runs into a brick wall, leaving a number of lead managers stuck trying to sell deals whose terms have suddenly become unrealistic.

Based on current trends this argument still looks, however, like wishful thinking. New business remains very sparse; liquidity is very great; and offers that borrowers "simply can't refuse" are being fired off, apparently by the hundred. In these circumstances there seems to be very little prospect of a market reversal. If the climate does eventually change, it will mean, bankers believe, not a return to the old-fashioned days of syndicated lending but simply that the pricing structure of Euronotes will have to change, much as margins used to fluctuate on syndicated loans.

There remains, however, a controversy about how far this type of deal should be available to lesser-rated borrowers. This is highlighted by Turkey's controversial $500m facility which is akin to a Euronote operation, except that Turkey will seek short-term advances from banks, rather than sell notes in the securities market.

Japanese influence shows in Eurobond market

LAST WEEK provided more evidence of the strong influence that the Japanese are having in the Eurobond market, both as borrowers and investors, writes Maggie Urry in London.

It has long been clear that Japanese borrowers making Eurodollar issues direct from Japan could price deals on much finer yields than those on U.S. Treasury securities, because of strong demand for the paper from Japan. That demand may at last be starting to wane, but borrowers are now turning their attention to other currency sectors.

Last week two such issues appeared in the Euro-Canadian dollar bond market totalling C$275m, and more are rumoured. Again coupons were much lower than other borrowers have achieved. "Not one of these bonds will be sold to an end-investor in Europe," noted a Canadian dollar specialist.

Currency swaps are harder to arrange in the Canadian dollar market, but thanks to the low coupon the borrowers have ended up with floating rate U.S. dollars at levels well below the London interbank offered rate (Libor).

The cynics point out that these proceeds could easily be reinvested in floating rate note issues yielding a spread above Libor, making the borrowers a tidy profit.

That leads to another area of strong Japanese influence, the FRN market. A large proportion of FRN issues are bought by Japanese banks, and syndicate managers believe that the recent surge in that market is in part due to those investors.

Floaters were again rising sharply last week, and on Friday Merrill Lynch once more brought a sovereign borrower – this time Belgium – to the market on probably the tightest terms yet seen. The issue, which was rapidly increased from $300m to $400m, pays interest every half year, fixed monthly at the higher of the mean rate between Libor and Libid (London interbank bid rate) for six-month Eurodollar deposits and one-month Libor.

The lean yield is compensated by front-end fees of 95 basis points. Even so, Belgium will make big cost savings by using the FRN proceeds to pre-pay loans arranged in 1980 which now pay interest at ½ per cent over Libor.

Away from the Japanese influence, the Eurodollar straight market enjoyed a much better week. The rally in New York dragged up prices in Europe by up to 2 points over the week, helping to shift the unsold paper, and new deals by and large came on sensible terms.

The Swiss franc foreign bond market is also a target for Japanese borrowers. Last year, according to Swiss National Bank figures, more than half the SwFr 19.5bn raised through private placements went to Japanese borrowers.

New issue activity in Switzerland has hotted up this year, with rival syndicates even launching public issues on the same day. Secondary market conditions hardly seem to justify the rush, with some new issues getting off to a poor start when trading begins. Investors are unwelcoming to issues with coupons much under 5½ per cent.

Similarly the D-Mark bond market is on a new issue spree, with nearly DM 2bn worth of deals launched last week. The fad among borrowers is for offering equity-linked deals – again a fashion inspired by the Japanese – and so getting much lower coupons. Sadly investors are not quite so keen and in grey market trading these bonds with equity warrants are slipping to discounts of around three points. Kobe Steel's issue, where terms were fixed last week, was quoted by some traders at only 95½.

Fixed-rate bond issues have fared badly too, upset by the higher yield fixed for the Federal Government issue on Friday. Over the week foreign bond prices have slipped by ¾ to 1 point. By the weekend, though, the market had stabilised and traders were feeling more optimistic.

The Japanese equity warrant formula appeared in the Eurosterling market too on Friday when Minebea, the ball bearing group, raised £50m with such an issue.

U.S. corporates are still flooding to the Euroyen market, although oversupply of paper there means that many issues flounder. Syndicate managers are even finding that swap fees as well as commissions on the issue are being wiped out by the losses on the bonds.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Shawmut (a)†‡	50	1997	12	⅜	100	County Bank	–
Bank of Greece (b)†‡	250	1997	12	¼	100	BoA Int.	–
Toyo Menka ‡	50	1992	7	10⅞	100	Nikko Secs. (Europe)	10.875
Pasco Corp. §	20	2000	15½	(3⅛)	100	Nikko Secs (Europe)	*
Signal Companies ‡	125	1992	7	11¾	100	Goldman Sachs	11.750
Crédit Agricole ‡	125	1992	7	11½	100	Chase Manhattan	11.500
Escom (S.Africa) ‡	75	1991	6	12¼	100	Commerzbank	12.250
Arizona Public Service ‡	75	1992	7	12½	100	CSFB	12.500
Export Dev. Corp. ††‡	150	1990	5	10¾	99.575	Salomon Bros.	10.865
Nissho-Iwai ‡	100	1992	7	10¾	100	Morgan Stanley	10.750
First Bank System (e)†‡	150	1996	11¾	⅛	100	CSFB	–
Gulf States Utilities ‡	75	1992	7	13	99½	CSFB	13.114
Mitsubishi Elec. Corp. §	100	2000	15	(2⅞)	100	Daiwa Europe	*
Nippon Yusen K.K. ‡	50	1992	7	10⅞	100.6	Kleinwort Benson	10.749
Chemical Bank (f) †‡	300	1997	12	1/16	100	Goldman Sachs	–
Denmark ‡	100	1990	5	10⅞	99⅞	Goldman Sachs	10.909
Belgium **(g)†‡	400	2000	15	(g)	100	Merrill Lynch	–
Hydro-Quebec ††‡	*200*	*2012*	*27*	*11¾*	*99.60*	*First Boston*	*11.800*
ITT Corp. ‡	50	1992	7	11	100	CSFB	11.000
CANADIAN DOLLARS							
Marubeni ‡	200	1992	7	11	100½	Yamaichi Int. (Eur)	10.894
Bank of Tokyo ‡	75	1992	7	10⅞	100	Bank of Tokyo	10.875
Trizec ‡	60	1995	10	11⅞	100	CIBC	11.875
D-MARKS							
Kobe Steel ¶‡	200	1990	5	3½	100	Dresdner Bank	3.500
Sweden ‡	500	1995	10	7¼	100	Dresdner Bank	7.250
Nat. Bk of Hungary ‡	100	1993	8	7¾	100	Commerzbank	7.750
Amex O/S Credit **‡	20	1990	5	6⅞	100	Commerzbank	6.875
Chujitsuya Co. ¶	70	1990	5	(4)	100	Bayerische Vereinsbk	*
World Bank ‡	500	1995	10	7⅛	99½	Deutsche Bank	7.322
Bayer Cap. Corp. ¶‡	600	1995	10	2¾	100	Deutsche Bank	2.750
Jujo Paper Co. ¶	120	1991	6	(3½)	(100)	WestLB	*
Trio-Kenwood ¶	55	1990	5	(3¾)	100	Deutsche Bank	*
SWISS FRANCS							
Koa Denko **§‡	30	1990	–	1⅞	100	Crédit Suisse	1.875
Nakayama Steel Wks **¶‡	50	1990	–	3⅝	100	UBS	3.625
Nat. Patent Dev. Corp. §	60	1995	–	(6)	*	Bqe Gutzwiller, K. B.	*
Chujitsuya Co. **¶	40	1990	–	(3¾)	100	Wirtschafts- und Prbk	*
Yuken Kogyo Co. **¶‡	20	1990	–	3⅝	100	Banca della Sviz. It.	3.625
Small Business Fin. Corp ‡	100	1995	–	5½	100	Crédit Suisse	5.500
Pasco Corp. §	50	1990	–	(2)	100	Bank Julius Baer	*
ITT Fin. Cor. ‡	100	1995	–	5⅜	100	SBC	5.375
Santos Finance	130	1995	–	(5¾)	*	Handelsbank	*
Asian Dev. Bank (c)†	50	2000	–	⅛	100	SBC	–
Asian Dev. Bank	100	1997	–	(5⅞)	*	SBC	*
Hanken Corp. **‡	50	1990	–	5⅝	100¼	SBC	5.566
Nihon Cement **	20	1990	–	(5⅝)	100	UBS	*
Mitsui Mining Co. **¶	60	1990	–	(3¾)	*	UBS	*
ECUs							
B. Naz. Agricoltura	50	1992	7	10	100	Mitsubishi Fin.	10.000
EIB ‡	200	1995	10	9¼	100	BNP	9.250
S.African Transport (d)‡	50	1990	5	10⅜	100	CCF	10.375
STERLING							
American Brands ‡	40	1995	10	12	100	Morgan Grenfell	12.000
Minebea ¶	50	1990	5	(8¼)	100	Baring Brothers	*
GUILDERS							
Lease Plan ‡	30	1990	5	7¼	99½	Bank Mees & Hope	7.373
CNT ‡	50	1995	8	7¾	100¼	ABN	7.713
LUXEMBOURG FRANCS							
S.E.K. **‡	250	1990	5	10	100½	Bqe Generale du Lux.	9.869
YEN							
World Bank ‡	50bn	2000	12.3	6.7	99¾	Nikko Secs.	6.727
China Int. Trust & Inv. ‡	30bn	1995	9	6.6	99.55	Daiwa Secs.	6.663
ITT ‡	20bn	1992	7	6¾	100	Morgan Stanley	6.750

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating-rate note. ¶ With equity warrants. ₵ With debt warrants. (a) ⅜ over 3-m Libor; (b) ¼ over 6-m Libor. (c) ⅛ over 6-m Libor. (d) Extendible to 2000, coupon reset after 5 yrs. (e) ⅛ over 3-m Libor. (f) 1/16 over-3-m Libor. (g) Higher of either 6-m Limean or 1-m Libor paid 6-monthly. †† Registered with U.S. S.E.C. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Prices soar as investor confidence grows

THE U.S. BOND markets broke new ground last week as prices soared and yields sank amid growing investor confidence about the state of the economy and the inflationary outlook.

The explosive rally was all the more impressive coming on the heels of the favourable fourth-quarter gross national product data. The 3.9 per cent gain which made 1984 the best year for growth since an 8.3 per cent gain in 1951 coupled with a modest 2.4 per cent increase in the GNP price deflator—the lowest quarterly rate in well over a decade—led some market economists, like Mr David Jones of Aubrey Lanston, to suggest the statistics might signal " the beginning of a 'golden-age' of sustained growth with low inflation comparable to the early 1960s."

As Mr Jones also noted, the additionally positive news that consumer prices increased at a scant 2.3 per cent annual pace in December reinforced " what might be considered a major wave of fundamental downward revision in investor's inflationary expectations."

And there was other good news for the markets last week. The $3.8bn decline in M1 was larger than expected suggesting that monetary growth in January is moderating from the strong pace in December and adding to expectations that the Fed will ease further or, at the very least, hold steady.

Dr Henry Kaufman, Salomon Brothers' chief economist, notes " money growth has removed the major bar to a Fed easing. Key money market sectors are now priced at levels that seem to anticipate a Federal funds rate of 8 per cent or even lower. Funds however have been stuck around 8.25 per cent for the past few weeks. The Fed will probably decide to ease very soon, but technical factors may require a drop in the discount rate to get funds down to or below 8 per cent."

Mr Philip Braverman of Briggs Schaedle adds, " the market is increasingly confident that the Fed will at a minimum maintain its current stance for an extended period."

But some Wall Street economists disagree. They believe that the Fed is unlikely to swerve from a stable policy stance in the weeks immediately ahead. Indeed Mr Jones suggests it would be " irresponsible " of the Fed to ease further at this stage because of recent rapid money and credit growth and indications that real economic activity is " on a solid growth path."

Some light on the Fed's current thinking may be shed by Mr Paul Volcker's testimony on Thursday this week before the Joint Economic Committee of Congress. The Fed chairman's testimony comes ahead of his major presentation of the 1985 monetary targets to Congress next month.

Last week another Fed governor, Mr Lyle Gramley, took the public stage. Mr Gramley's remark that " further reduction in the growth of money and credit will be needed at some time in the future if the goal of price stability is to be realised," sounded a cautionary note in the bull credit markets. But the views of Mr Gramley, a recent dissenter on Fed easing moves, were generally seen as being consistent with the planned reduction in 1985 M1 growth targets and not indicative of any early Fed firming move.

In any event the market shrugged off the warning. By the close on Friday the Treasury long bond was up almost 3 full points on the holiday-shortened trading week and yielding 11.19 per cent compared to 11.53 per cent a week earlier. The price advance was spurred by heavy institutional demand and the return to the markets of individual investors.

Other government bond prices were ½ to three points higher on the week. The Treasury auction of two-year notes on Wednesday brought investors an average yield of 9.83 per cent.

Bank certificate of deposit rates have now reached their cyclical lows while Treasury bill rates are 60 basis points above their cyclical troughs of August 1982.

On Wednesday this week the Treasury will announce details of its much anticipated February refunding which will see the introduction of the Treasury stripping " strips " feature and a new non-callable long bond.

The auction is expected to involve $15bn in new securities comprising $6.5bn in three-year notes, $6bn in 10-year notes and $5.5bn in long bonds. There are already indications of a great deal of advance interest in the *upcoming 10- and 30-year issues* —including, for seasonal reasons, from pension fund managers and other institutional investors—and some suggestions that the issues may be oversubscribed.

Ahead of the auction however the markets have some other hurdles to get over including an expected $2bn to $3bn increase in M1 this week, the possibility of some profit-taking, and a surge in new corporate bond offerings.

Last week new issue volume of straight corporate debt totalled over $1.9bn, including $675m of traditional long-term bonds, as corporate bond prices gained between one and two full points.

Paul Taylor

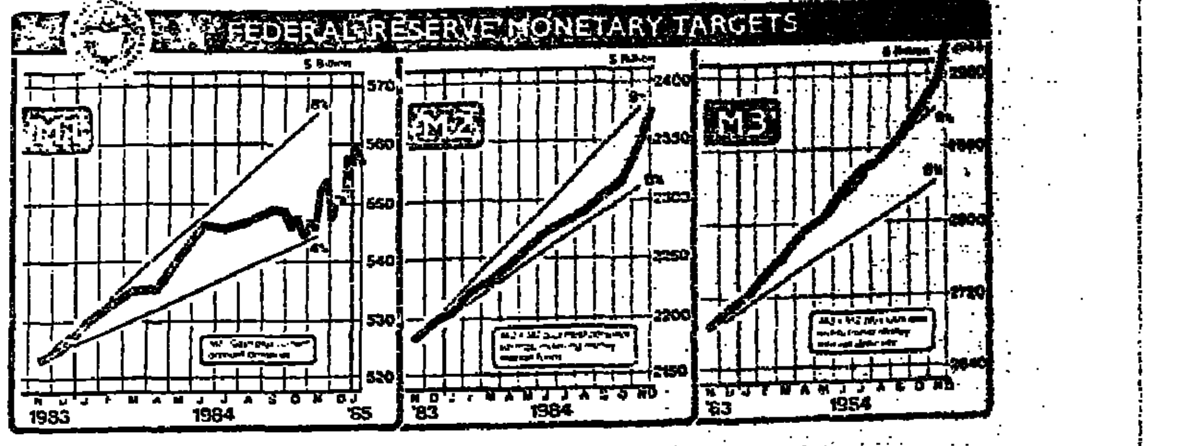
U.S. MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.28	8.21	8.20	11.77	7.82
Three-month Treasury bills	7.83	7.73	7.76	10.77	7.58
Six-month Treasury bills	7.91	7.94	8.10	10.83	7.87
Three-month prime CDs	8.19	8.07	8.30	11.90	8.05
30-day Commercial Paper	7.88	7.88	8.13	11.38	7.85
90-day Commercial Paper	7.95	8.00	8.20	11.40	7.90

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	103⅛	+1⅛	10.97	11.26	(new)
20-year Treasury	102⅝	+3	11.25	11.63	11.62
30-year Treasury	104⅜	+2⅞	11.19	11.53	11.49
New 10-year "A" Financial	n/a	+3	11.80	12.13	12.13
New "AA" Long utility	n/a	+2	12.25	12.50	12.50
New "AA" Long industrial	n/a	+2	12.25	12.25	12.50

Money Supply: In the week ended January 14 M1 fell by $2.8bn to $556.8bn.



UK GILTS

Index-linked stocks buck the trend

THERE WAS, at least, one sector of the gilt-edged market which managed to escape the shadow of sterling's weakness last week.

The Bank of England's decision on Friday to confine its new funding efforts to £250m of existing index-linked stocks underlined the relative strength of such paper within the market's overall decline.

The two stocks—£150m of 2½ per cent index-linked Treasury 2003 and £100m of 2½ per cent index-linked Treasury 2020—had both shown gains of about 2 points over the week.

Conventional issues with similar maturities were about a point down as concern over oil prices, the pound, and base rates kept investors away.

The simplest explanation for the better performance of index-linked stocks is found in the *defensive strategy* of some fund managers.

If the pound's fall means higher inflation—and that after all is why the Government changed tack in favour of defending the exchange rate—then index-linked stocks are a sound hedge.

Fears that the equity market was over-reaching itself also persuaded some investors to switch new funds into index-linked paper.

With yields on equities down to around 4 per cent, and conventional *gilts still shaky*, the guaranteed real return of around 3½ per cent on index-linked stocks was an attractive proposition.

The Government Broker's remaining supplies of 2½ per cent index-linked Treasury 2011 and 2½ per cent index-linked Treasury 2001 therefore were quickly exhausted at the begin*ning of the week.*

But if the Bank's decision to stick with index-linked funding highlighted the strength of that sector, it also persuaded many traders of the fragility of the rest of the market.

Short-dated yields have now more or less adjusted to 12 per cent base rates and the long end of the market is offering close to 11 per cent.

In more tranquil times that would suggest a firm base from which the market could start to recover.

The pound's weakness ahead of today's OPEC talks and a general sense of unease over the fiscal and monetary outlook, however, saw most brokers advising the institutions to remain liquid.

Sterling's vulnerability was shown by Friday's late slide in New York and its failure to react to what most people agree to be the final phase of the miners' strike.

And the Government's new-found determination to defend the currency is also seen as cutting two ways.

If Mrs Thatcher's personal telephone calls to President Reagan do the trick by persuading central banks to intervene with more than token dollar sales all well and good.

But the implication drawn by many is that if this approach fails the Prime Minister will prefer to see still higher interest rates rather than pound-dollar parity, hardly good news for gilts.

The pessimists in the City were last week wondering whether there is not a real possibility that the Minimum Lending Rate board could make a second appearance.

Worries over oil and the pound are still accentuated by the widespread perception that the authorities will need to fund at every opportunity if they are to keep the money supply under control.

The initial guesses for the growth of sterling M3 in January suggest that the heavy tax inflows to the Exchequer may well have been offset by a further surge in bank lending.

And the Government's White Paper on its spending plans hardly boosted confidence.

"A New Form of Fiction" was the judgement of broker Rowe & Pitman, echoing the general scepticism within the City that the spending targets can be met.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
[illegible]	[illegible]	[illegible]	+1⅜	11.64
[illegible]	[illegible]	[illegible]	+0⅞	11.42
[illegible]	[illegible]	[illegible]	+0⅞	11.59
[illegible]	[illegible]	[illegible]	+1⅝	11.64
[illegible]	[illegible]	[illegible]	+1	10.18
[illegible]	[illegible]	[illegible]	+0⅝	11.25
[illegible]	[illegible]	[illegible]	+1⅝	10.59
[illegible]	[illegible]	[illegible]	+0⅝	10.83
[illegible]	[illegible]	[illegible]	+1	11.07
[illegible]	[illegible]	[illegible]	+0½	10.43
[illegible]	[illegible]	[illegible]	+1	11.76
[illegible]	[illegible]	[illegible]	+1	11.82
[illegible]	[illegible]	[illegible]	+1⅜	11.58
[illegible]	[illegible]	[illegible]	+0½	11.51
[illegible]	[illegible]	[illegible]	+0⅝	12.26
[illegible]	[illegible]	[illegible]	+0⅞	10.35
[illegible]	[illegible]	[illegible]	+1	11.28
[illegible]	[illegible]	[illegible]	+1⅛	12.36
[illegible]	[illegible]	[illegible]	+2⅛	12.36
[illegible]	[illegible]	[illegible]	+1	11.53
[illegible]	[illegible]	[illegible]	+0⅛	10.46
[illegible]	[illegible]	[illegible]	−9⅞	5.42
[illegible]	[illegible]	[illegible]	+2	11.87
[illegible]	[illegible]	[illegible]	+0⅞	10.10
[illegible]	[illegible]	[illegible]	+0⅝	11.73
[illegible]	[illegible]	[illegible]	+0⅝	11.81
[illegible]	[illegible]	[illegible]	+1⅛	11.75
[illegible]	[illegible]	[illegible]	−0⅛	11.00
[illegible]	[illegible]	[illegible]	−0⅛	13.76
[illegible]	[illegible]	[illegible]	+0⅞	11.70
[illegible]	[illegible]	[illegible]	+0⅛	11.11
[illegible]	[illegible]	[illegible]	+0⅝	12.09
[illegible]	[illegible]	[illegible]	0	12.16
[illegible]	[illegible]	[illegible]	+1⅜	11.86
[illegible]	[illegible]	[illegible]	+1	11.63
[illegible]	[illegible]	[illegible]	+2⅛	8.00
[illegible]	[illegible]	[illegible]	+0⅞	11.42
[illegible]	[illegible]	[illegible]	+1⅛	12.42
[illegible]	[illegible]	[illegible]	+1⅛	12.42
[illegible]	[illegible]	[illegible]	+1⅛	11.91
[illegible]	[illegible]	[illegible]	+0⅜	11.35
[illegible]	[illegible]	[illegible]	+1⅛	12.27
[illegible]	[illegible]	[illegible]	+0½	12.30
[illegible]	[illegible]	[illegible]	+0⅜	11.18
[illegible]	[illegible]	[illegible]	−0⅛	11.92
[illegible]	[illegible]	[illegible]	+1⅛	11.38
[illegible]	[illegible]	[illegible]	+0⅝	9.67
[illegible]	[illegible]	[illegible]	+1	10.68
[illegible]	[illegible]	[illegible]	+1⅞	11.54
[illegible]	[illegible]	[illegible]	+1⅛	11.31
[illegible]	[illegible]	[illegible]	+0⅜	10.67
[illegible]	[illegible]	[illegible]	+0⅜	11.92
[illegible]	[illegible]	[illegible]	+0⅜	10.34
[illegible]	[illegible]	[illegible]	+1⅛	11.40
[illegible]	[illegible]	[illegible]	+1⅝	11.53
[illegible]	[illegible]	[illegible]	+1⅜	11.80
[illegible]	[illegible]	[illegible]	+1	11.30
[illegible]	[illegible]	[illegible]	+1	12.28
[illegible]	[illegible]	[illegible]	+2⅞	11.40
[illegible]	[illegible]	[illegible]	+1⅛	11.13
[illegible]	[illegible]	[illegible]	+0⅜	9.35
[illegible]	[illegible]	[illegible]	+0⅛	10.73
[illegible]	[illegible]	[illegible]	+0½	10.61
[illegible]	[illegible]	[illegible]	+0⅜	10.54
[illegible]	[illegible]	[illegible]	+1⅛	10.80
[illegible]	[illegible]	[illegible]	+1	10.40
[illegible]	[illegible]	[illegible]	+0⅞	11.02
[illegible]	[illegible]	[illegible]	0	11.70
[illegible]	[illegible]	[illegible]	+0⅞	10.40
[illegible]	[illegible]	[illegible]	+0⅜	11.01
[illegible]	[illegible]	[illegible]	+1⅛	11.35
[illegible]	[illegible]	[illegible]	+0⅛	9.45
[illegible]	[illegible]	[illegible]	+1	10.73
[illegible]	[illegible]	[illegible]	+0⅛	10.62
[illegible]	[illegible]	[illegible]	+1	10.79
[illegible]	[illegible]	[illegible]	+0⅜	12.09
[illegible]	[illegible]	[illegible]	+0⅝	11.11
[illegible]	[illegible]	[illegible]	+0⅜	12.06
[illegible]	[illegible]	[illegible]	+0⅛	10.83
[illegible]	[illegible]	[illegible]	+0⅜	11.02
[illegible]	[illegible]	[illegible]	+0⅝	10.85
[illegible]	[illegible]	[illegible]	−0⅜	11.27
[illegible]	[illegible]	[illegible]	+0⅛	10.89
[illegible]	[illegible]	[illegible]	+0⅞	12.34
[illegible]	[illegible]	[illegible]	+1⅜	12.21
[illegible]	[illegible]	[illegible]	+0½	11.77
[illegible]	[illegible]	[illegible]	+0⅞	10.92
[illegible]	[illegible]	[illegible]	+0⅛	11.06
[illegible]	[illegible]	[illegible]	+0½	11.92
[illegible]	[illegible]	[illegible]	+0⅝	12.48
[illegible]	[illegible]	[illegible]	+0⅛	10.69
[illegible]	[illegible]	[illegible]	+1	12.02
[illegible]	[illegible]	[illegible]	+0⅞	11.17
[illegible]	[illegible]	[illegible]	+0⅛	11.41
[illegible]	[illegible]	[illegible]	+0⅞	11.41
[illegible]	[illegible]	[illegible]	−0½	12.14
[illegible]	[illegible]	[illegible]	+1⅝	11.19
[illegible]	[illegible]	[illegible]	+1⅜	11.48
[illegible]	[illegible]	[illegible]	−0⅛	11.22
[illegible]	[illegible]	[illegible]	0	13.03
[illegible]	[illegible]	[illegible]	+0⅝	12.30
[illegible]	[illegible]	[illegible]	+1⅜	10.99
[illegible]	[illegible]	[illegible]	+1⅜	11.02
[illegible]	[illegible]	[illegible]	+3⅜	11.25
[illegible]	[illegible]	[illegible]	+1⅛	11.68
[illegible]	[illegible]	[illegible]	+1⅝	11.40
[illegible]	[illegible]	[illegible]	+1⅜	11.42
[illegible]	[illegible]	[illegible]	+1⅛	11.34
[illegible]	[illegible]	[illegible]	+1⅞	11.34
[illegible]	[illegible]	[illegible]	+0⅞	11.05
[illegible]	[illegible]	[illegible]	+1⅛	11.09
[illegible]	[illegible]	[illegible]	+0½	11.64
[illegible]	[illegible]	[illegible]	+3⅛	3.67
[illegible]	[illegible]	[illegible]	−1⅛	6.81
[illegible]	[illegible]	[illegible]	−0⅜	11.07
[illegible]	[illegible]	[illegible]	+0⅛	8.37
[illegible]	[illegible]	[illegible]	+1⅞	9.80
[illegible]	[illegible]	[illegible]	+0⅛	11.72
[illegible]	[illegible]	[illegible]	+1	11.97
[illegible]	[illegible]	[illegible]	+1	11.36
[illegible]	[illegible]	[illegible]	+0⅜	11.12
[illegible]	[illegible]	[illegible]	+1⅛	11.28
[illegible]	[illegible]	[illegible]	+1	11.38
[illegible]	[illegible]	[illegible]	+0⅛	11.88
[illegible]	[illegible]	[illegible]	+1⅛	11.64
[illegible]	[illegible]	[illegible]	−0⅛	10.90
[illegible]	[illegible]	[illegible]	+2⅛	11.20
[illegible]	[illegible]	[illegible]	+1⅜	9.64
[illegible]	[illegible]	[illegible]	−1⅞	2.79
[illegible]	[illegible]	[illegible]	+1⅛	11.48
[illegible]	[illegible]	[illegible]	+1½	11.42
[illegible]	[illegible]	[illegible]	+1½	11.54
[illegible]	[illegible]	[illegible]	+0⅜	11.66
[illegible]	[illegible]	[illegible]	+1⅝	2.78
[illegible]	[illegible]	[illegible]	+1⅛	11.37
[illegible]	[illegible]	[illegible]	+0⅛	10.92
[illegible]	[illegible]	[illegible]	+2⅛	11.57
[illegible]	[illegible]	[illegible]	+0⅝	11.77
[illegible]	[illegible]	[illegible]	+1⅛	11.44
[illegible]	[illegible]	[illegible]	+1⅛	11.63
[illegible]	[illegible]	[illegible]	+0⅝	12.14
[illegible]	[illegible]	[illegible]	+1⅛	11.88
[illegible]	[illegible]	[illegible]	+0½	11.03
[illegible]	[illegible]	[illegible]	+1	10.33
[illegible]	[illegible]	[illegible]	+1½	11.92
[illegible]	[illegible]	[illegible]	+1⅞	11.75
[illegible]	[illegible]	[illegible]	+2⅞	12.67
[illegible]	[illegible]	[illegible]	+1	12.23
[illegible]	[illegible]	[illegible]	+0⅜	12.21
[illegible]	[illegible]	[illegible]	+0⅝	12.11
[illegible]	[illegible]	[illegible]	+1	11.24
[illegible]	[illegible]	[illegible]	+1⅛	10.93
[illegible]	[illegible]	[illegible]	+1⅞	10.84
[illegible]	[illegible]	[illegible]	+1½	11.63
[illegible]	[illegible]	[illegible]	+0⅞	11.31
[illegible]	[illegible]	[illegible]	+0⅝	12.16
[illegible]	[illegible]	[illegible]	+0½	13.17
[illegible]	[illegible]	[illegible]	+0⅛	12.24
[illegible]	[illegible]	[illegible]	+0⅜	11.17
[illegible]	[illegible]	[illegible]	+0⅜	10.89
[illegible]	[illegible]	[illegible]	+1⅞	11.80
[illegible]	[illegible]	[illegible]	+1	11.74
[illegible]	[illegible]	[illegible]	+1½	12.09
[illegible]	[illegible]	[illegible]	+1	12.63
[illegible]	[illegible]	[illegible]	+0⅜	11.49
[illegible]	[illegible]	[illegible]	+1½	10.30
[illegible]	[illegible]	[illegible]	+1⅛	11.72
[illegible]	[illegible]	[illegible]	+1½	10.92
[illegible]	[illegible]	[illegible]	+0⅛	11.25
[illegible]	[illegible]	[illegible]	+1⅜	11.56
[illegible]	[illegible]	[illegible]	+0⅛	11.46
[illegible]	[illegible]	[illegible]	+0½	11.13
[illegible]	[illegible]	[illegible]	+0⅛	11.38
Texas Instr 11⅞ 91	150	101⅛	+1⅛	11.47
Tokai Asia 12⅛ 91	100	102⅛	+1⅛	11.68
Tokyo Electric 6⅛ 83	70	93	0	8.56
Tokyo Electric 13⅛ 89	100	108⅞	+0⅛	10.81
Toronto-Dom 12⅝ 89	50	102⅛	+0⅛	11.71
UBS 12⅛ 91	100	103⅛	+1	11.35
Veba 8 93	70	110⅛	−2⅛	6.45
Warner-Lambert 10¾ 90	100	98⅝	+0½	10.62
West LB 11⅞ 90	100	99⅛	+0⅛	12.01
Weyerhaeuser 11½ 90	60	99⅞	0	11.51
Yasuda Trust 12⅛ 89	100	102⅛	+1⅛	11.59

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
Arab Bank Cpn ⅛ 96	100	99⅝	−0⅛	12⅛
BAII ¼ 91	50	98⅝	−0⅞	12
Banco Lavoro ⅛ 91	100	100	−0⅛	10 9/16
Banco di Roma ¼ 90	75	100⅛	+0⅛	12 5/16
Ban di Roma 1/16 92 CU	75	99⅞	0	2⅞
Banco Hispano ¼ 95	100	99⅜	−0½	11 5/16
Bankers Tr NY ¼ 94	200	100½	+0⅛	8 15/16
Bank of Greece ¼ 94	150	98	−0⅛	9⅛
Bank Montreal ¼ 94 £	100	99⅝	0	10⅛
Bank of New York ⅛ 96	75	100	0	11 13/16
Bqe Nat Paris ⅛ 88	400	100⅛	0	10½
Bqe Nat Paris ⅛ 89	250	100⅛	0	10
Bqe Nat Paris ¼ 91	125	100½	0	12 13/16
Bqe Nat Paris ⅛ 96	250	100½	+0⅛	9⅛
Barclays O/S ¼ 90	100	101	+0⅛	9⅞
Barclays O/S ¼	600	100⅞	+0½	10 5/16
BBL ¼ 95	100	100⅞	+0⅛	9⅞
Bqe Nat Paris ¼ 88	400	101	−0⅛	12⅛
BBL ⅛ 99	100	100⅛	−0⅛	11 11/16
BFCE ¼ 87	400	100⅛	0	12⅜
BFCE ¼ 88	125	100⅜	−0⅛	10⅞
BFCE ¼ 88	500	100½	+0⅛	9⅛
BFCE ⅛ 99	600	100⅜	+0⅛	12 7/16
CEPME ⅛ 96 £	100	99⅝	−0⅛	10⅛
Citicorp O/S ⅛ 91 £	100	99⅛	+0⅛	10
Caisse Nat Tel ¼ 91	250	100½	0	10⅞
Creditanstalt 1/16 98	150	100⅛	0	12 5/16
Credit Lyonn ⅛ 98	300	100⅞	+0⅛	9⅞
Credit National ¼ 95 £	100	99⅞	−0⅛	9⅞
Dai-Ichi Kngyo ⅛ 96	150	100⅛	0	10 7/16
Denmark ¼ 90	250	100⅛	+0⅛	9 7/16
Denmark 3/16 92	100	100⅛	0	12⅜
Denmark 0 99	200	99⅝	+2½	11 7/16
Denmark 3/16 90	500	100⅞	0	11⅞
Dresdner Bank ¼ 93	400	101	−0⅛	11½
Eldorado Nuke 0 98	100	100⅛	−0⅛	12 3/16
Elec de France ¼ 95	300	100½	0	12½
Elec de France ⅛ 99	400	100⅛	+0⅛	12⅛
EEC ⅛ 90	2bn	100½	+0⅛	9 7/16
ENEL ¼ 93 £	100	99⅛	−0½	10⅛
Exterior Intl ¼ 96	125	99⅝	−0½	9⅝
Ferro del Stat ⅛ 99	250	100⅛	−0⅛	12½
Fiat Finance ¼ 94	100	99⅛	−0⅛	12
First Aust Bk ⅛ 92	50	99⅝	0	12 13/16
First Chicago ¼ 94	100	100⅛	0	10
Ford Motor Cr ⅛ 91	200	99⅞	0	9 15/16
Genfinance ¼ 87	100	100⅞	0	11
Genfinance ¼ 92	100	100⅜	0	9 9/16
GZB ¼ 89	40	100⅝	0	9 13/16
GZB ¼ 92	50	100⅛	+0⅛	9½
Gotabanken ⅛ 94	60	99⅝	−0½	10½
GW O/S Fin ⅛ 94	100	98⅞	−0½	12
Grindlays ⅛ 94	100	100½	−0⅛	12½
Ind. Bk Japan ⅛ 88	60	101½	+0⅞	10⅛
INI Perpet 3/16 00	150	100	0	11 13/16
Interfirst Tex ⅛ 90	100	96	0	9⅞
Int Bk Rec Dev 11/32 89	250	98⅝	+0⅛	8 11/32
Ireland ¼ 93 £	50	100	0	10 3/16
Ireland 3/16 94	300	100	−0⅛	9⅛
Italy ⅛ 99	500	100½	+0⅛	12⅛
Kleinwort Ben ¼ 96	100	100½	−0⅛	12⅛
Lloyds Eurofin ¼ 92	100	100⅞	0	8 13/16
Malaysia ¼ 93	850	100⅛	−0⅛	12⅞
Marine Midland ¼ 94	125	100⅛	+0⅛	9⅞
Marine Midland ¼ 96	125	100	0	9 5/16
Megal Fin 3/16 94 CU	100	100	+0½	8 15/16
Midland Intl ¼ 89	125	101	+0⅛	9⅞
Midland Intl 0 91	150	101½	+0⅛	11
Midland Intl ⅛ 99	200	100⅛	0	12⅜
Mitsui Fin ⅛ 96	100	100⅝	0	12 5/16
Morgan Grenfell ⅛ 94	50	99⅝	−0⅛	9
Mtg Bk Dnmrk 3/16 94 £	50	100	0	10⅝
Nat Bk Canada ⅛ 91	50	100⅛	+0⅛	9⅞
Nat West Bank ⅛ 90	150	100⅞	+0⅛	9 9/16
Nat West Fin 0 91	125	100⅛	+0⅛	9⅛
Nat West Bank ¼ 92	100	101⅛	+0⅛	10⅞
Nat West Bank ¼ 94	100	101⅛	+0⅛	10⅛
Nat West Fin ⅛	365	101	+0⅛	10⅛
Neste Oy ⅛ 94	100	100⅛	−0⅛	12⅜
New Zealand ⅛ 87	350	100⅜	0	11⅞
NZ Steel Corp ¼ 92	300	100⅜	+0⅛	9½
Nippon Cred Bk ⅛ 90	50	100⅛	0	12⅞
Oster Ln Bk ⅛ 99	100	100⅛	+0⅛	11 11/16
Offshore Min ⅛ 86	100	100½	+0⅛	9⅞
Offshore Min ⅛ 91	150	100⅝	0	9 13/16
Oko Bank ⅛ 92	60	99½	0	12⅛
Pirelli Fin ⅛ 94	50	97⅜	−0⅞	12½
Portugal ¼ 92	100	99⅜	+0⅛	12
Quebec Hydro ⅛ 94	200	100⅝	+0⅛	9⅛
Quensind Coal ⅛ 96	358	101	0	10⅛
Quensind Coal ⅛ 85	46	100⅛	−0⅛	10⅛
Renfe ⅛ 91	100	100½	−0⅛	12⅞
Royal Bk Scot ¼ 94	75	100⅛	0	9⅛
Sanwa Intnl ⅛ 92	150	100	0	12⅛
Scandivia Fin ⅛ 93	70	99⅛	0	9⅛
Scot Intnl Fin ⅛ 92	100	100⅛	−0⅛	11 13/16
SEAT ¼ 93	100	99⅝	−1	9⅞
Skopbank ⅛ 94	75	99½	+0⅛	9½
SNCF ⅛ 93 £	75	100	−0½	12⅛
Soc Generale ⅛ 90	200	100⅛	0	10⅛
Soc Gen (#½%) ⅛ 95	250	101⅛	0	12½
Soc Generale ⅛ 94	250	100½	−0⅛	12⅜
Spain ⅛ 93	200	100⅜	−0⅛	12½
Spain ⅛ 97	250	100⅛	−0⅛	12⅞
Standard Chart ⅛ 91	100	100⅜	+0⅛	12½
Standard Chart ⅛ 94	200	101	0	12 11/16
Standard Chart ⅛ 91	100	100⅝	0	10⅛
Standard Chart ⅛ 94	200	100½	+0⅛	9½
Sumitomo Tst ⅛ 94	100	100⅛	−0⅛	12⅞
Sweden ⅛ 89	650	100⅛	−0⅛	12 3/16
Sweden ¼ 91	150	100⅛	0	8 11/16
Sweden ¼ 93	1bn	100⅛	+0⅛	12 7/16
Sweden ⅛ 03	1bn	100½	0	10⅞
Sweden ⅛ 24	600	100⅛	+0⅛	11 7/16
Sweden ⅛	750	100⅝	+0⅛	9 7/16
Tokai Asia ⅛ 99	150	100⅛	+0⅛	9 15/16
Toyo Tst Asia ⅛ 98	100	100½	0	8 13/16
TVO Power ⅛ 04	100	98⅜	+0⅛	9
Union Bank-Norw ⅛ 99	50	98	−0⅛	12 5/16
Wells Fargo 3/16 96	50	99⅛	−0⅛	8⅞
Williams & Glyns ¼ 91	75	100⅞	0	12⅛
Yorkshire Int ⅛ 94 £	75	99⅛	−0⅛	10⅛

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	93½	−1⅛	
Ajinomoto 5¼ 96	40	125⅛	−1⅛	10.99
Best-Denki 5⅞ 97	15	138⅞	+4⅞	−8.57
Brdgstne Tire 5½ 96	70	107	−1⅛	0.02
Canon 6⅛ 94	80	273	−4½	5.91
Canon 6⅜ 95	50	198⅞	−5⅛	12.80
Canon 7 97	50	227⅛	−5⅛	13.39
BBC Brown Bov 4⅛ 95	67	90	+0⅞	−0.21
Bow Valley 8 95	40	119⅞	+0⅞	79.89
Comsat Intnl 7⅛ 98	110	82⅛	+2	40.07
Daiwa Secs 5½ 98	60	135⅛	−8	0.83
Dev Bk Sing 5½ 98	70	70	+1	7.37
Elders 11⅛ 94	160	104⅞	−0½	77.98
Elektrowatt 5 98	52	89⅛	0	18.90
Fanuc 3⅛ 98	80	149	−0⅛	−2.11
Fujitsu 3 99	180	96⅛	−3⅛	4.87
Inrec Inc 3 99	50	79⅛	−0⅛	−5.77
Konishiroku 4 98	50	98	+4⅛	6.33
Mitsubishi H 4⅛ 99	100	91⅞	−6⅛	2.07
Moet-Hennessy 7 89	50	102⅛	+0⅛	3.38
Murata Mfg 3½ 99	100	111⅛	−1⅛	−0.13
Murata Mfg 3⅛ 00	100	108⅛	−2⅛	−0.40
Nippon Oil 3⅛ 99	60	81⅛	−1⅛	7.92
Ono Phrm 3⅛ 98	60	103	+5	−3.78
Soc Gen Surv 4½ 94	51	89	0	144.19
Sumitomo Corp 2⅞ 99	70	92	−2⅛	0.21
Texaco Capital ⅞ 94	1bn	101⅛	+0⅛	46.17
Texaco Capital 11⅛ 94	500	100½	+0⅛	47.25
Usair Finance 7 98	50	109	+4⅛	2.05
Yamanouchi 4 90	50	199'	+30½	12.79

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 5⅛ 88	15	96⅛	0	6.62
Asian Dev Bank 7⅛ 94	15	100⅛	−0⅛	7.26
Asian Dev Bk 8⅛ 91	15	105	+0⅛	7.21
Asian Dev Bk 8⅛ 92	15	107	−0⅛	7.37
Australia 8½ 91	15	106⅛	0	7.22
Austria 8⅛ 92	15	106⅛	+0⅛	7.52
Denmark 8⅛ 92	15	104⅛	+0⅛	7.46
Eurofima 6⅛ 86	10	100	−0⅛	6.47
Eurofima 7⅛ 94	10	102⅛	+1	6.96
Eurofima 8⅛ 93	10	104⅛	−0⅛	7.25
Euro Invest Bk 7⅛ 89	15	103⅛	0	6.85
Euro Invest Bk 8⅛ 92	15	106⅛	0	7.14
Finland 8⅛ 87	15	103⅛	−0⅛	5.57
Finland 8⅛ 89	15	104⅛	−0⅛	7.28
IADB 7⅛ 94	15	101⅛	+0⅛	7.23
IADB 8⅛ 91	15	107⅛	0	7.48
IADB 7⅛ 93	15	103⅞	+0⅛	7.28
New Zealand 7⅛ 90	15	100⅛	−0⅛	6.98
New Zealand 7⅛ 89	15	102⅛	0	6.71
New Zealand 8⅛ 87	15	103⅛	+0⅛	6.94
Sweden 8⅛ 90	15	104⅛	−0⅛	7.40
World Bank 7 94	20	99⅛	0	7.09
World Bank 7⅛ 93	20	102⅛	−0⅛	7.21
World Bank 8 93	20	105⅛	−0⅛	7.12
World Bank 8⅛ 92	20	106⅛	−0⅛	7.19
World Bank 8⅛ 91	20	109⅛	0	6.83

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
E Coal & Steel 10⅛ 94	1bn	96⅛	+0⅛	8.58
E Coal & Steel 7⅛ 88	500	94⅞	+0⅛	9.42
E Coal & Steel 7⅛ 88	600	102⅛	0	9.99
Euro Invest Bk 10⅛ 94	1bn	104⅛	0	9.77
Int Bk Rc Dv 10⅛ 89	1bn	104⅛	0	8.90

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
AEN 8 89	200	104	0	6.81
ABN 8⅛ 85	150	102⅛	+0⅛	6.95
AEN 7⅛ 89	150	105⅛	0	7.05
Amro Bank 8 89	200	103⅛	0	6.92
Amro Bank 8⅛ 88	100	104⅛	−0⅛	7.27
Bk Mees & Hope 8⅛ 89	100	104⅛	+0⅛	6.91
Beitrice Foods 8⅛ 89	100	100⅛	+0⅛	7.99
C C Rabo 8 89	150	104⅛	+0⅛	6.80
C C Rabo 9 88	100	105⅛	−0⅛	7.39
Denmark 8½ 91	100	104⅛	0	7.59
Int Stand Elec 8½ 89	100	105	−0⅛	7.04
Ned Midd Bank 9 88	100	106	0	7.11
New Zealand 8⅛ 89	100	104⅛	0	6.99

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Br Col Prov 12 93	100	102⅛	+0⅛	11.50
Bqe l'Indosaez 14 91	75	107	+1⅛	12.33
Br Col Munic 13⅛ 91	100	107	0	11.84
Br Col Tele 12⅛ 89	70	102	+1	11.94
Farm Cred Corp 12⅛ 90	75	104⅛	+0⅛	11.19
Int Bk Rec Dev 12⅛ 90	75	105	0	10.99
Montreal City 12⅛ 91	70	104⅛	+0⅛	11.48
Quebec Hydro 14 91	75	108⅛	+0⅛	11.98

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
Australia & NZ 10⅛ 91	50	103⅛	+0⅛	9.92
Oesterreich 10⅛ 93	100	105	−0⅛	9.69
Cred National 11⅛ 91	50	106⅛	−0⅛	9.81
Denmark 10⅛ 91	75	104⅛	0	9.75
Ebco Intnl 10⅛ 90	55	105⅛	−0⅛	9.22
EEC 10½ 91	60	102	−1⅛	10.03
EEC 11 93	50	105½	0	9.65
EEC 11⅛ 91	50	105⅛	−0⅛	9.99
EEC 11⅛ 93	70	105⅛	−0⅛	10.22
Euro Coal & Steel 6 94	60	107	+0⅛	10.10
Euro Invest Bk 10⅛ 89	50	105⅛	0	9.02
Euro Invest Bk 10⅛ 94	100	104⅛	+0⅛	9.80
Euro Invest Bk 11⅛ 92	75	106⅛	0	9.87
Euro Invest Bk 11⅛ 93	50	108½	−1⅛	9.63
Euro Invest Bk 11⅛ 96	50	106	0	10.31
Geo Finance 11 90	70	105⅛	0	9.76
Gto Finance 10⅛ 92	50	106⅛	−0⅛	9.69
Int Bk Rec Dev 10⅛ 88	100	105⅛	−0⅛	8.93
Int Bk Rec Dev 11 93	50	106⅛	−0⅛	9.89
Italian Treas 11½ 90	60	104⅛	+0⅛	10.31
Megal Finance 11⅛ 94	100	103⅛	−0⅛	10.66
Nippon Cred Bk 11 91	50	105	+0⅛	9.82
Nordic Inv Bk 6 94	50	105	+0⅛	10.11
Post Och Kred 10⅞ 92	50	103	−0⅛	10.25
Royal Bk Can 10⅛ 89	85	104⅛	−0⅛	9.06
SNCI 10⅞ 94	60	103⅛	−0⅛	10.21
Swedish Export 11 89	58	103⅞	−0⅛	9.81
West LB 10⅞ 91	50	105⅛	+0⅛	9.71

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AIDC 12⅛ 90	42	99	+0⅞	12.39
G J Coles 13½ 89	25	100½	+0⅛	13.28
Nat Aust Bk 12½ 89	40	97⅛	+0⅛	13.39
PIBA 12⅛ 89	50	97⅛	+0⅛	13.20
State Bk NSW 12⅛ 89	40	98½	−0⅛	12.70
State Aust 13⅛ 87	24	99⅛	+0⅛	13.40

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
Danmark 10⅛ 89	75	98⅛	+0⅛	11.87
Europarat 11⅛ 92	50	98½	+0⅞	11.68
EEC 11⅛ 94	50	98⅞	+0⅛	11.63
EEC 11⅞ 93	50	100⅛	+0½	11.83
Euro Invest Bk 10⅛ 92	75	95⅛	+0⅛	11.69
FFI 10⅛ 93	50	96½	+1	11.38
Finland 11⅞ 88	50	100⅛	+0⅛	11.56
IADB 11⅛ 91	60	98⅛	+0⅛	11.80
Int Bk Rec Dev 10⅞ 89	100	95½	+0⅛	11.69
Int Stand Elec 11⅛ 89	50	100⅛	+0⅛	11.08
Inv In Indust 11½ 91	50	101	0	11.27
Ireland 11⅛ 94	50	95⅛	+0⅛	12.16
New Zealand 10⅛ 89	100	93⅛	+0⅛	11.76
SNCF 11⅛ 94	60	98⅞	+0⅞	11.86
SNCF 11½ 89	30	100	+0⅞	11.47

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Commerzbank	31/5/88	46	0	126.53
Ciba-Geigy Int £	1/11/93	240	+37½	105.37
C Itoh	20/1/87	42½	−0⅛	
C Itoh DM	4/5/89	12⅞	−1⅛	376.96
Credit Suisse	31/5/88	13⅛	0	93.33
Degussa Int DM	2/5/93	132	+0⅛	130.07
Deutsche Bank DM	16/6/91	120½	−14⅛	117.57
Dresdner Fin DM	1/9/92	0		
ICI Finance	1/6/90	365	+30	
IC Industries	15/6/88	13⅛	+1⅛	204.44
Jusco	12/12/89	69⅛	−0⅛	
Kayaba Ind	15/2/89	9⅛	+0⅛	964.57
Minebea Co	20/2/89	28⅛	+3⅛	
Mitsubishi Ch	20/1/87	30⅛	−1⅛	
Mitsubishi Cp	7/11/88	14⅛	−1⅛	798.07
Mitsui	10/12/87	16½	+0⅛	
Nippon Mining	17/3/89	83⅛	+21½	
Nisho Iwai	1/2/89	7⅛	+0⅛	855.22
Nomura Sec	31/10/88	29⅛	−2⅛	899.19
Omron Tateisi	31/3/89	14⅛	−0⅛	294.55
Onoda Cement	10/4/88	43½	−1	
Phillips Gloeil	15/7/88	15	0	187.97
Prudential O/S	16/12/88	100	0	801.14
Seagram Comp	15/9/88	10⅛	0	98.11
Seino Trans	17/3/89	11⅛	0	409.20
Siemens Wrtn DM	31/5/90	33	−102⅛	68.92
Sumitomo Cons	24/3/89	43⅛	+0⅛	
Sumitomo Heavy	24/2/89	11	−0⅛	
Swiss Bk Corp	20/12/88	28⅛	+0⅛	118.12
Tokyo Electric	14/3/89	11	−1	312.18
Tokyo Sanyo	8/6/87	138	+1	
Toray Ind	5/3/87	12½	0	821.86
Veba Intnl	15/12/93	45	−7⅛	123.61

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	14/2/88	14⅛	−0⅛	8.37
ANR Fin 15⅛ 89	15/9/87	30	−45	5.06
Coca-Cola 11⅛ 91	28/11/88	31⅛	+1⅛	5.13
Commerzbk 11⅛ 90	17/7/88	69½	+1⅛	−0.29
Denmark 11⅛ 93	15/12/88	18½	+0⅛	8.45
D Norsk Cr 11⅛ 91	1/2/88	9	0	10.84
Dv Bk Sing 14⅛ 89	12/9/88	53⅛	+3⅛	0.98
Du Pont 13⅛ 89	20/8/88	47⅛	+1⅛	1.37
Eksportfinas 13⅛ 89	15/9/87	50	+8⅛	1.18
Gen Elec 12⅛ 91	7/8/87	47	+1⅛	4.32
IBM Credit 13 87	19/8/85	47⅛	+3	−5.28
Inv In Inds 10½ 91	1/12/88	64	−1	0.82
M Hanover 13⅛ 87	1/8/85	27⅛	−7⅛	3.54
McDonlds F 11⅛ 94	5/1/89	23⅛	−11⅛	7.41
Morgan J.P. 10⅛ 90	16/8/87	14⅛	−2	8.81
Nordic Inv Bk 11 90	15/11/87	11⅛	0	10.53
Oester Lnbk 13⅛ 89	9/8/87	49⅛	+8⅛	1.28
Penney J C. 10⅞ 90	15/10/87	12⅛	−0⅛	7.86
Post-O Kred 11⅛ 90	15/11/87	13⅛	+3⅛	9.25
Ryl B Scot 11⅞ 93	15/11/88	19⅛	−1	8.78
Texaco 10½ 93	15/11/87	12⅛	0	9.01
Texaco Cap 12⅞ 92	1/9/87	44⅛	+0⅛	5.58
Thmsn-Brdt 13⅛ 91	29/8/86	36⅛	−2	8.43
Weyerhausr 11 90	15/11/87	13⅛	−0⅛	8.82
Xerox 13⅛ 87	15/8/86	35	+3	−1.86

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on January 25

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue / January, 1985

U.S. $1,296,956,000

Prudential Realty Securities III, Inc.

(incorporated in the State of Delaware)

U.S. $386,049,000 11⅞% Guaranteed Sinking Fund Bonds
Due January 15, 1992
U.S. $545,691,000 12⅛% Guaranteed Sinking Fund Bonds
Due January 15, 1995
U.S. $365,216,000 Guaranteed Zero Coupon Bonds
Due January 15, 1999

Unconditionally guaranteed by

Prudential Funding Corporation

(incorporated in the State of New Jersey)

A Subsidiary of

The **Prudential** Insurance Company of America

Salomon Brothers International Limited **Credit Suisse First Boston Limited**

Prudential-Bache Securities International **Hambros Bank Limited**

Banque Bruxelles Lambert S.A. **Deutsche Bank Aktiengesellschaft** **Goldman Sachs International Corp.**

Merrill Lynch Capital Markets **Morgan Guaranty Ltd** **Morgan Stanley International**

Swiss Bank Corporation International Limited **Union Bank of Switzerland (Securities) Limited**

Algemene Bank Nederland N.V. **BankAmerica Capital Markets Group** **Bankers Trust International Limited**

Banque Nationale de Paris **Banque Paribas Capital Markets** **Chase Manhattan Capital Markets Group** Chase Manhattan Limited

Citicorp Capital Markets Group **County Bank Limited** **Crédit Lyonnais** **Daiwa Europe Limited**

Dresdner Bank Aktiengesellschaft **Kleinwort, Benson Limited** **Manufacturers Hanover Limited**

Mitsui Trust Bank (Europe) S.A. **Samuel Montagu & Co. Limited** **Nippon Credit International (HK) Ltd.**

Orion Royal Bank Limited **S.G. Warburg & Co. Ltd.** **Yamaichi International (Europe) Limited**

Banca Commerciale Italiana — Banca Nazionale del Lavoro — Bank für Gemeinwirtschaft Aktiengesellschaft — Bank Gutzwiller, Kurz, Bungener (Overseas) Limited — Bank Leu International Ltd

Banque Générale du Luxembourg S.A. — Banque Internationale à Luxembourg S.A. — Banque de Neuflize, Schlumberger, Mallet — Banque Populaire Suisse SA Luxembourg

Banque Worms — Barclays Bank Group — Baring Brothers & Co., Limited — Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft — Bear, Stearns International Limited

Caisse des Dépôts et Consignations — Cazenove & Co. — CIBC Limited — Crédit Commercial de France — Creditanstalt-Bankverein

Dai-Ichi Kangyo International Limited — Den norske Creditbank — DG BANK Deutsche Genossenschaftsbank — Dominion Securities Pitfield Limited — Drexel Burnham Lambert Incorporated — Enskilda Securities Skandinaviska Enskilda Limited — Euromobiliare

European Banking Company Limited — First Interstate Limited — Fuji International Finance Limited — Gefina International Limited — Genossenschaftliche Zentralbank AG Vienna

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft — Great Pacific Capital SA — Hill Samuel & Co. Limited — Kidder, Peabody International Limited — Kredietbank N.V.

Kredietbank S.A. Luxembourgeoise — Lloyds Bank International Limited — LTCB International Limited — McLeod Young Weir International Limited — Mitsubishi Finance International Limited

Mitsui Finance International Limited — The Nikko Securities Co., (Europe) Ltd. — Nippon Kangyo Kakumaru (Europe) Limited — Nomura International Limited

Norddeutsche Landesbank Girozentrale — Sal. Oppenheim jr. & Cie. — Österreichische Länderbank Aktiengesellschaft — Pierson, Heldring & Pierson N.V. — PK Christiania Bank (UK) Limited

Rothschild Bank AG — N.M. Rothschild & Sons Limited — Sanwa International Limited — Sarasin International Securities Limited — J. Henry Schroder Wagg & Co. Limited

Schweizerische Hypotheken- und Handelsbank — Smith Barney, Harris Upham & Co. Incorporated — Strauss, Turnbull & Co. — Sumitomo Trust International Limited

Svenska Handelsbanken Group — Swiss Volksbank — The Taiyo Kobe Bank (Luxembourg) S.A. — Tokai International Limited

Tradition International S.A. — Vereins- und Westbank Aktiengesellschaft — Westdeutsche Landesbank Girozentrale — Yasuda Trust Europe Limited

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Good take-off for KLM's perpetual bond

KLM ROYAL DUTCH Airlines, which prides itself on innovative financing and bold management, has received a warm welcome for its pioneering Swiss franc perpetual bond.

The 6½ per cent subordinated bond issue is the first of its kind launched by a foreign borrower on the Swiss capital market, or by any non-bank corporation in the international bond market. The SwFr 200m ($74.8m) issue, which was priced at par, was heavily oversubscribed and is expected to begin trading tomorrow at a premium according to Kredietbank (Suisse), lead manager of the issuing syndicate.

The coupon on the undated paper will be adjusted every 10 years, in accordance with two indices for foreign bonds issued in Switzerland plus ½ percentage point. The bond will be redeemed only in case of bankruptcy on the part of KLM, which is 55.4 per cent-owned by the Dutch Government, and is thus more similar to equity capital than to a debenture. How the perpetual bonds may eventually be regarded in terms of KLM's capital structure by the auditing profession remains to be seen.

KLM's paid-up capital has grown rapidly in recent years through share offerings, stock splits, and conversions, although the debt-to-equity ratio remains a healthy 45:55. That compares favourably with an industry average of 60:40, and even with the new bonds it should not rise above 50:50, the company says.

Swiss francs were chosen largely because KLM wants to spread its risk among various currencies, though many of the new aircraft it will buy in coming years will be priced in dollars.

Simultaneously with the Swiss franc issue, KLM has launched Fl 125m ($34.9m) of 4½ per cent subordinated bonds, with equity warrants attached, on the Dutch market.

This aggressive tapping of the capital markets arises from KLM's need to finance an ambitious Fl 5bn investment programme stretching over the next five years. The airline plans to replace its entire DC9 fleet (18 aircraft), to expand its capacity by adding 747s and A310s, and to build new hangars and catering facilities. Accelerated automation of operations will also absorb some of the fresh money.

Yet there are signs that KLM's financing successes may have made it over confident. A $100m Eurobond issue launched last year was shunned by Algemene Bank Nederland and Amsterdam - Rotterdam Bank, the Netherlands' two largest banks, which complained that the coupon was too low. The paper attracted little investor interest and, after falling below issue price shortly after subscriptions closed, is no longer actively traded.

Despite its relatively small home market, the carrier has developed a worldwide route network that ranks among the largest of any international airline. Partial government ownership has added to KLM's prestige and helped it secure landing rights—usually granted on a government-to-government basis.

Yet KLM is managed as a private concern. Mr Sergio Orlandini, its president for the past decade, has succeeded in reversing the profit plunge which followed the second oil crisis, boosting earnings by an average of 37 per cent a year between 1979 and 1983. He intends to raise net income to Fl 270m this year — double that of last year — and to raise revenues by nearly one-third to Fl 5.5bn. That implies increasing net income as a percentage of turnover to 5 per cent, compared with last year's 2 per cent, in order to finance the huge investment programme.

KLM, the oldest airline in the world, has also achieved an enviably high load factor (the number of seats filled as a percentage of the total available) which is a key to its efficient operations. The first-half load factor of 70.3 per cent was so high that Mr Orlandini's goal is to reduce the break-even load factor, the level at which profits begin, as a way of further increasing earnings.

Mr Orlandini has charted an innovative course in the financing world. In 1983, the company offered bonds with "A" and "B" equity warrants attached, with the "A" warrants immediately exercisable and the "B" warrants remaining in effect until 1988.

The Dutch airline has used aircraft-lease arrangements to offset its tax liability and has paid no income tax since 1978. Under the U.S. Tax Reform Act of 1984, however, KLM will no longer gain enough tax advantages under U.S. leases to make new ones worthwhile. The company says similar agreements can be arranged in Japan and West Germany, but the heavy reliance on aircraft leasing in the past raises the question of whether the new bonds were linked to the tax changes.

Laura Raun

Recovery at TI despite final-quarter downturn

By William Hall in New York

TEXAS INSTRUMENTS, the world's biggest supplier of semiconductors, which recently announced substantial layoffs because of a slump in demand, has reported a 17 per cent drop in fourth-quarter net income to $64.6m.

Fourth-quarter net sales, however, rose 17 per cent to $1.5bn. Earnings fell primarily because of the impact of weaker international currencies, increased inventory reserves in data systems, and a 27-cent reduction in earnings per share in connection with the layoffs announced last month. The quarter's earnings per share fell from $3.23 to $2.64 and include $0.31 a share from third-party sales of previously written-off consumer products.

TI's full year result shows a sharp recovery from 1983 when the group announced an after-tax loss of $145.4m, or $6.09 per share, following $660m of losses arising from its decision to pull out of the personal computer market.

In 1984 TI earned $316m or $13.05 per share, on sales 25 per cent ahead at $5.7bn. The 1984 earnings per share figure includes a 95 cents gain arising from third-party sales of previously written-off consumer products.

Nicor plans big write-off

By Our New York Staff

NICOR, which operates one of the biggest gas utilities in the U.S., is to take a $225m after-tax write-off on its contract drilling and shipping businesses and plans to sell off its coal business and some of its marine assets.

Mr C. J. Gauthier, Nicor's chairman, says prices have declined dramatically since Nicor entered the businesses.

The company earned $49.8m on revenues of $2.2bn in 1983, but will report a substantial loss when it announces its 1984 figures next month. There has been speculation that the group which has a current stock market capitalisation of $760m, might be forced to cut its dividend.

INTERNATIONAL APPOINTMENTS

Hudson's Bay chief executive to retire

BY BERNARD SIMON IN TORONTO

Mr Donald McGiverin, the chief executive of HUDSON'S BAY COMPANY, the Canadian retail, property and fur trading group, is to retire as part of a management reshuffle to improve the ailing company's performance.

A pillar of the Canadian business establishment, Mr McGiverin is relinquishing his duties as president and chief executive officer, but will remain as non-executive chairman and governor. The title of governor was conferred by a Royal charter on the North American fur trading pioneers who founded Hudson's Bay Company in 1670.

The debt burdened company has suffered operating losses totalling C$390m (U.S.$295m) in the last four years, reflecting mainly the poor performance of its Simpson's chain of department stores. Despite the economic recovery, Hudson's Bay lost C$166.4m in the nine months to October 31 on revenues of C$3.3bn. Interest charges amounted to C$146.1m.

The controlling shareholders of Hudson's Bay are the Thomson publishing family.

Simpson's troubles have been blamed on a combination of poor merchandising, a heavy concentration of stores in unattractive centre city locations, and low staff morale. Hudson's Bay predicted that earnings would improve towards the end of 1984, but analysts said that the latest management changes indicate that the turnround has been far from satisfactory.

Mr George Kosich, who has headed Simpsons for the past three months, becomes chief executive of Simpson's and its sister chain of department stores, The Bay.

Further rise in earnings for Kellogg

By Our New York Staff

KELLOGG, the world's biggest producer of breakfast cereals, has reported a 3 per cent rise in net income to $250m. The Battle Creek, Michigan-based company says that 1984 was its 33rd consecutive year of earnings increases. Earnings per share rose by 6 per cent to $3.35, allowing for a 6 cents per share charge.

Kellogg's share of the U.S. ready-to-eat cereal market grew in 1984 to around 40 per cent.

Last month the company announced that it was repurchasing 15m of its shares from the Kellogg Foundation at $37.50 per share reducing the trust's stake in the company from 47 per cent to around 34 per cent.

The company is one of the most profitable in the industry with a return on average equity of over 30 per cent which is expected to jump to over 40 per cent in 1985 as a result of the share repurchase agreement. Although several companies in the food industry have been subject to takeover bids, Kellogg has not figured in the speculation because of the very sizeable stake of the Kellogg Trust.

Bank Bumiputra sues ex-officials

BY WONG SULONG IN KUALA LUMPUR

BANK BUMIPUTRA, Malaysia's state-owned bank, which lost nearly U.S.$1bn in bad loans to Hong Kong property speculators, has filed a suit against four former senior bank officials for the return of U.S.$47.5m.

The suit, filed on Saturday in the Kuala Lumpur High Court, is against Mr Lorrain Osman, Datuk Hashim Shamsuddin, Dr Rais Saniman and Mr Ibrahim Jaafar, in respect of a U.S.$40m loan to Carrian Nominee and U.S.$7.5m to Fitarget Investments.

In addition, Mr Lorrain is also being sued by the bank for the return of U.S.$11m which an official investigation committee into the loan scandal has alleged he received improperly from Mr George Tan, head of the Carrian group of companies.

The assets of the four former bank officials have been frozen by order of the court and Tan Sri Basir Ismail, Bank Bumiputra's new executive chairman, said he believed most of their assets are still in Malaysia. The four are currently out of the country and it is not known when they will return to answer the charges.

The bank said Mr Lorrain has accounts in 32 banks and interests in over 100 companies, while Datuk Hashim and Dr Rais own extensive properties.

In its claim, the bank alleged that the four men "by their own neglect, want of skill or misconduct in management" had caused Bank Bumiputra to suffer the loss of US$47.5m. It is alleged that the loan to Carrian Investment was given out even after the bank's supervisory committee had rejected the application in January 1983. On the bank's books, the money was recorded as a money market loan to the Bank of Communications in Hong Kong.

Bank Bumiputra also alleges that in April and June 1983, the four officials caused the bank to release UC$7.5m to Nanyang Commercial Bank (Nominees), without disclosing that the money actually went to Fitarget, a Carrian company.

Japan to limit overseas bond issues

TOKYO — The amount of Japanese Government guaranteed non-yen bonds issued outside Japan will be limited to a maximum of Y500bn ($1.97bn) in the year from April 1985, a drop from the Y603bn in the current year, said the Ministry of Finance.

The lower volume, which is subject to parliamentary approval as part of the 1985-86 budget expected in March, reflects the privatisation of Nippon Telegraph and Telephone—due on April 1.

Among the issues expected in 1985-86 are Y60bn by Japan Air Lines, Y123bn by Japan Development Bank, Y40bn by Japan Highway Public Corp, Y55bn by Export-Import Bank of Japan, Y40bn by Finance Corp of Local Public Enterprise, Y35bn by the City of Tokyo, Y14bn by Electric Power Development, Y10bn by the City of Yokohama, and Y10bn by Smaller Business Finance Corp, said the Ministry.

Reuter

Fourth-quarter advance for Shell Oil

By Our New York Staff

SHELL OIL, which is majority owned by the Royal Dutch Shell group, has managed to buck the earnings downturn experienced by several of its rivals and reported a 3.8 per cent increase in fourth-quarter net income to $581m.

Mr John Bookout, Shell's president, describes the results as "gratifying" in view of the weakness in the oil and commodity chemical markets in the latter half of 1984. Among its major U.S. rivals to report so far, Mobil and Exxon have reported drops of one tenth and a third respectively and Standard Indiana reported unchanged fourth-quarter profits.

Shell's full-year profits rose by 8.5 per cent to $1.77bn and earnings per share increased by a similar amount to $5.73.

A more than doubling of the group's net income from its chemical operations to $132m was a major factor in the profit improvement. The group's oil and gas exploration and production operations were virtually unchanged in net terms. Contribution and earnings from the oil products operations fell from $238m to $223m.

Managing director elect for Credit Lyonnais

BY PAUL BETTS IN PARIS

M Bernard Thiolon has been appointed managing director of CREDIT LYONNAIS, France's third largest bank, after the Credit Agricole and the Banque Nationale de Paris.

M Thiolon, who has been in charge of the bank's international activities, will act as a joint managing director of the bank alongside the existing managing director, M Jacques Roche, who will be retiring next year. M Thiolon will then take over from M Roche.

The nomination of M Thiolon is designed to ensure a progressive change-over at the bank before M Roche reaches retirement next year.

The new managing director has spent his entire professional career at Credit Lyonnais, which he joined in 1951. He has always been involved with the international division of the bank. M Thiolon will be replaced at the head of the bank's international and co-operation sector by M Alexis Wolkenstein.

First Interstate reshuffle

BY OUR FINANCIAL STAFF

FIRST INTERSTATE Bancorp, which claims seventh place among U.S. banking companies, has realigned its senior management, with Mr Edward M. Carson, 54, becoming president.

At the same time, the business of the group's largest subsidiary, First Interstate Bank of California (FIBC), is being split into two parts. Mr William E. B. Siart, 38, becomes president and chief executive of FIBC, and Mr John F. King, 51, switches from president to chairman, as it focusses on developing the State's retail and corporate markets.

Mr Bruce G. Willison, 36, becomes president and chief executive of a newly set-up bank, First Interstate Bank Ltd, aimed at "wholesale banking, merchant banking and financial advisory services."

INTERNATIONAL COMPANIES

Ahmanson recovers in fourth quarter

By Andrew Baxter in New York

H. F. AHMANSON, parent of the second largest savings and loan association in the U.S., has made a strong recovery in the fourth quarter after barely managing to break even in the previous three months.

Net profits in the final quarter were $20.1m or 72 cents a share, including extraordinary income of $8.4m. This compares with $3.23m or 12 cents a share in the third quarter, when a combination of higher money costs, lower spreads and reduced gains on sales of loans and mortgage-backed securities caused profits to plunge from the 1983 third-period figure of $47.7m.

Even with the extraordinary gain in the fourth quarter, net profits for the period were still lower than the $26.4m, or 95 cents a share, recorded in the final three months of 1983. For 1984 as a whole, Ahmanson, whose chief subsidiary is Home Savings of America, posted net profits of $51.6m or $1.96 a share, down from the near-record $108m or $4.02 in 1983.

Total assets rose from $20.2bn at the end of 1983 to $24bn, of which the property-loan portfolio is $19.1bn.

The company attributed the fourth-quarter recovery to significantly higher net interest income, lower funding costs and a substantial improvement in the margin of return on earning assets.

After-tax realised investment gains were $11.8m lower in the 1984 fourth quarter than a year earlier.

North American Quarterly Results

AMERICAN HOSPITAL SUPPLY
Hospital & lab equipment

Fourth quarter	1984 $	1983 $
Revenue	878.1m	824.4m
Net profits	61.9m	53.9m
Net per share	0.85	0.73
Year		
Revenue	3.4bn	3.3bn
Net profits	237.8m	211.8m
Net per share	3.23	2.86

DOW JONES
Business publishing, newspapers

Fourth quarter	1984 $	1983 $
Revenue	257.1m	233.7m
Net profits	34.44m	33.47m
Net per share	0.54	0.52
Year		
Revenue	965.8m	866.4m
Net profits	129.14m	114.22m
Net per share	2.01	1.79

MARTIN MARIETTA
Aerospace, aluminium, bulldg. mat'l.

Fourth quarter	1984 $	1983 $
Revenue	1.11bn	914m
Op. net profits	33.3m	31.8m
Op. net per share	0.85	0.84
Year		
Revenue	3.92bn	3.22bn
Op. net profits	176m	61.6m
Op. net per share	4.72	4.09

PPG
Flat glass, industrial chemicals

Fourth quarter	1984 $	1983 $
Revenue	1.07bn	963.7m
Net profits	65.7m	67.8m
Net per share	0.94	0.98
Year		
Revenue	4.24bn	3.68bn
Net profits	302.8m	232.5m
Net per share	4.33	3.34

RAYTHEON
Defence electronics, aircraft

Fourth quarter	1984 $	1983 $
Revenue	1.57bn	1.47bn
Net profits	89.6m	83.1m
Net per share	1.05	0.98

ROHM & HAAS
Plastics & chemicals

Fourth quarter	1984 $	1983 $
Revenue	454.5m	433.2m
Net profits	25.2m	28.7m
Net per share	1.03	1.11

SCIENTIFIC ATLANTA
Satellite communications equipment

Fourth quarter	1984 $	1983 $
Revenue	109m	95.1m
Net profits	4.1m	3.46m
Net per share	0.18	0.15
Year		
Revenue	216.3m	191.8m
Net profits	7.43m	5.87m
Net per share	0.32	0.25

SMITHKLINE BECKMAN
Drugs, instruments

Fourth quarter	1984 $	1983 $
Revenue	798.2m	717.8m
Net profits	120.7m	115.8m
Net per share	1.52	1.44
Twelve months		
Revenue	2.95bn	2.84bn
Net profits	503.8m	488.5m
Net per share	6.23	5.89

SOUTHWESTERN BELL
Spun off from AT&T

Fourth quarter	1984 $	1983 $
Revenue	1.9bn	—
Net profits	222.8m	—
Net per share	2.25	—

STONE AND WEBSTER
Engineering

Year	1984 $	1983 $
Revenue	343m	342.3m
Net profits	36m	29.4m
Net per share	5.02	4.13

TEXACO CANADA
Oil producer

Fourth quarter	1984 C$	1983 C$
Revenue	1.64bn	1.59bn
Net profits	109.9m	85.2m
Net per share	0.90	0.68
Year		
Revenue	6.27bn	5.73bn
Net profits	422.1m	343.5m
Net per share	3.41	2.74

TRANSAMERICA
Financial services, insurance

Fourth quarter	1984 $	1983 $
Revenue	1.40bn	1.14bn
Net profits	80.2m	48.1m
Net per share	0.77	0.62
Year		
Revenue	5.40bn	4.70bn
Net profits	171.5m	199.3m
Net per share	2.54	3.11

UNION PACIFIC
Energy, natural resources, railroads

Fourth quarter	1984 $	1983 $
Revenue	1.81bn	2.01bn
Op. net profits	125.3m	106.2m
Op. net per share	1.05	0.86
Year		
Revenue	7.91bn	8.53bn
Op. net profits	494.1m	441m
Op. net per share	4.01	3.57

USAIR
Domestic carrier

Fourth quarter	1984 $	1983 $
Revenue	414.5m	352.4m
Net profits	29m	30.6m
Net per share	1.11	1.26
Year		
Revenue	1.63bn	1.43bn
Net profits	121.8m	80.8m
Net per share	4.92	3.49

U.S. HOME
Homebuilder

Fourth quarter	1984 $	1983 $
Revenue	272.7m	284.2m
Net profits	†11.9m	1.77m
Net per share	†0.24	0.05
Year		
Revenue	1.1bn	1.15bn
Net profits	†43.9m	27.6m
Net per share	†1.27	0.90

†Loss

Notice of Redemption

Transocean Gulf Oil Company

8% Guaranteed Debentures Due 1986

(now Gulf Oil Corporation 8% Debentures Due 1986)

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of March 1, 1971, under which the above-designated Debentures are issued, $1,488,000. aggregate principal amount of such Debentures of the following distinctive numbers has been selected for redemption on March 1, 1985 (herein sometimes referred to as the redemption date):

$1,000 Coupon Debentures Bearing the Prefix Letter M

M47	2325	4894	8563	15992	19977	20741	21407	22066	23272	24362	24910	25433	27263	28105	28976
49	2327	4901	8578	15993	19983	20770	21419	22075	23292	24395	24921	25436	27273	28106	28979
50	2331	4903	8585	15995	19992	20783	21427	22077	23295	24399	24936	25440	27274	28115	28980
58	2332	4904	8592	16382	19995	20784	21469	22088	23303	24404	24942	25442	27276	28116	28991
61	2333	4906	8627	16576	19999	20792	21515	22090	23311	24405	24949	25462	27281	28121	28992
64	2344	4909	8628	16991	20009	20793	21516	22293	23313	24414	24951	25464	27283	28122	28994
124	2349	5065	8629	17997	20011	20804	21520	22297	23317	24415	24955	25468	27284	28126	28998
176	2363	5102	8639	17998	20017	20818	21521	22298	23320	24436	24960	25472	27287	28134	29012
187	2366	5115	8641	18125	20021	20827	21526	22304	23350	24437	24966	25473	27289	28135	29013
192	2367	5117	8644	18126	20026	20854	21556	22308	23351	24438	24973	25492	27293	28200	29017
194	2377	5118	8738	18956	20030	20881	21565	22309	23355	24456	24978	25494	27294	28206	29026
196	2448	5129	8871	18976	20046	20884	21571	22312	23362	24475	25002	25505	27295	28217	29028
200	2455	5133	8872	19023	20047	20885	21576	22313	23363	24480	25010	25516	27306	28225	29030
210	2456	5136	8886	19024	20055	20898	21582	22315	23364	24482	25013	25519	27308	28229	29034
218	2457	5200	9064	19041	20059	20899	21587	22320	23366	24484	25015	25521	27310	28235	29037
219	2458	5202	9284	19308	20062	20910	21591	22321	23368	24500	25016	25527	27314	28237	29045
228	2459	5218	9292	19312	20068	20911	21595	22326	23369	24501	25018	25543	27316	28252	29051
239	2505	5222	9321	19313	20070	20913	21611	22334	23371	24510	25019	25544	27326	28274	29052
240	2506	5225	9336	19319	20074	20914	21615	22524	23377	24515	25023	25549	27327	28284	29055
241	2517	5277	9458	19320	20083	20917	21627	22575	23379	24521	25024	25562	27329	28293	29246
245	2522	5509	9729	19321	20087	20922	21634	22576	23381	24525	25026	25567	27330	28306	29273
246	2564	5511	9777	19322	20117	20927	21635	22589	23383	24534	25033	25568	27334	28312	29297
248	2583	5532	9780	19323	20120	20935	21640	22641	23384	24541	25034	25570	27412	28349	29299
255	2584	5544	9830	19352	20128	20955	21641	22647	23416	24553	25046	25571	27413	28356	29306
262	2588	5552	9853	19355	20140	20961	21649	22649	23418	24554	25049	25578	27416	28358	29307
263	2589	5558	9875	19357	20160	20962	21654	22650	23433	24559	25052	25589	27431	28360	29308
271	2615	5579	9877	19381	20170	20974	21676	22776	23465	24562	25065	25591	27435	28361	29314
273	2619	5583	9881	19382	20172	20978	21677	22781	23468	24564	25066	25597	27440	28365	29315
726	2623	5589	9885	19387	20223	20993	21679	22789	23469	24565	25077	25604	27445	28375	29317
738	2671	5591	9894	19401	20225	20995	21680	22790	23470	24572	25079	26108	27452	28377	29318
793	2678	5592	9915	19408	20236	20996	21685	22795	23472	24589	25082	26110	27457	28383	29319
794	2712	5594	9917	19414	20259	20997	21700	22798	23473	24590	25092	26197	27469	28388	29321
808	2718	5597	9923	19417	20260	21015	21701	22799	23474	24594	25094	26198	27471	28392	29323
867	2731	5602	9925	19432	20279	21020	21711	22801	23483	24598	25097	26199	27480	28401	29333
868	2734	5603	9989	19456	20283	21026	21713	22805	23487	24599	25107	26200	27495	28402	29337
870	2774	5617	10053	19457	20285	21028	21716	22809	23497	24601	25108	26202	27497	28403	29348
937	2779	5630	10057	19466	20293	21046	21720	22814	23502	24602	25116	26207	27503	28405	29349
975	2781	5635	10058	19471	20296	21048	21723	22815	23504	24603	25132	26232	27508	28408	29350
1041	2783	5636	10060	19482	20319	21049	21728	22820	23508	24604	25139	26362	27513	28409	29359
1042	2794	5639	10142	19523	20323	21059	21731	22821	23511	24605	25147	26368	27520	28411	29365
1051	2809	5649	10176	19530	20327	21063	21734	22824	23513	24606	25148	26372	27532	28412	29372
1364	2875	5653	10177	19533	20328	21086	21739	22854	23522	24613	25150	26375	27534	28417	29378
1387	2942	5658	10178	19547	20329	21092	21740	22858	23523	24622	25164	26384	27671	28418	29384
1388	2944	5668	10184	19548	20331	21093	21744	22875	23620	24623	25170	26390	27676	28424	29385
1389	2966	5673	10296	19569	20343	21094	21745	22888	23622	24626	25171	26392	27700	28425	29393
1391	2969	5683	10298	19570	20350	21103	21749	22905	23630	24630	25180	26400	27708	28439	29395
1392	2991	5699	10304	19571	20387	21122	21750	22907	23635	24639	25187	26406	27713	28440	29396
1432	3001	5715	10375	19573	20389	21124	21756	22917	23639	24640	25189	26412	27714	28445	29408
1433	3005	5718	10376	19574	20396	21134	21762	22922	23642	24641	25194	26572	27715	28451	29410
1456	3010	5719	10557	19594	20403	21138	21766	22934	23644	24643	25196	26573	27720	28452	29416
1830	3012	5720	10560	19602	20404	21149	21780	22943	23651	24644	25208	26587	27744	28459	29422
1846	3014	5726	10561	19624	20405	21151	21785	22950	23656	24658	25215	26596	27752	28461	29452
1907	3027	5731	10578	19629	20406	21152	21794	22951	23662	24661	25218	26598	27753	28463	29454
1913	3038	5732	10742	19631	20407	21154	21796	22952	23667	24662	25219	26600	27777	28467	29460
1917	3041	5743	10787	19634	20412	21158	21797	22953	23679	24682	25223	26602	27780	28477	29469
1953	3042	6019	10792	19635	20414	21159	21805	22958	23684	24698	25228	26609	27781	28478	29470
1955	3044	6081	10878	19650	20416	21161	21837	22962	23686	24701	25234	26611	27782	28479	29478
1957	3102	6082	10880	19653	20421	21173	21840	23022	23692	24702	25236	26636	27783	28514	29479
1963	3164	6083	10903	19654	20438	21174	21862	23023	23700	24706	25264	26637	27784	28521	29482
1964	3169	6084	10904	19694	20442	21177	21865	23031	23708	24707	25272	26644	27789	28539	29484
1972	3173	6089	10905	19703	20457	21182	21871	23032	23740	24709	25277	26648	27804	28541	29492
1975	3242	6105	10906	19704	20475	21183	21873	23034	23741	24716	25281	26658	27808	28542	29493
1982	3245	6116	10907	19705	20477	21186	21877	23038	23744	24717	25282	26661	27810	28546	29544
2045	3280	6123	10908	19736	20478	21187	21884	23044	23756	24726	25285	26666	27813	28556	29573
2046	3285	6488	10909	19738	20482	21191	21887	23045	23763	24727	25304	26667	27815	28564	29575
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2055	3308	6807	10915	19741	20485	21223	21893	23065	23789	24741	25320	26694	27866	28597	29600
2056	3314	6808	10917	19763	20489	21225	21899	23068	23796	24757	25328	26698	27867	28600	29601
2063	3332	6874	11039	19764	20492	21228	21910	23070	23798	24765	25332	26713	27869	28621	29602
2068	3338	6890	11301	19765	20579	21231	21914	23071	23804	24775	25342	26724	27871	28634	29603
2077	3341	6891	11552	19766	20584	21236	21946	23074	23815	24776	25343	26725	27879	28653	29610
2079	3459	6899	11554	19769	20591	21237	21952	23084	23868	24782	25351	26759	27888	28654	29617
2081	3482	7178	12644	19774	20594	21254	21957	23085	23875	24785	25363	26760	27893	28665	29640
2082	3485	7183	12652	19779	20598	21259	21958	23088	23877	24807	25364	26763	27896	28666	29644
2084	3489	7203	12661	19780	20601	21270	21964	23091	23880	24808	25366	26765	27899	28867	29647
2085	4239	7227	12662	19782	20602	21278	21971	23094	23885	24809	25373	26870	27903	28877	29689
2088	4243	7251	12769	19783	20608	21288	21973	23106	23887	24811	25374	26874	27904	28881	29752
2115	4399	7252	13082	19785	20609	21290	21984	23143	23888	24812	25375	26876	27905	28886	29763
2138	4568	7254	13089	19828	20621	21299	22001	23165	23890	24815	25385	26881	27906	28890	29771
2140	4581	7358	13254	19827	20624	21312	22002	23166	23892	24825	25397	26903	27910	28894	29801
2142	4586	7359	13258	19834	20629	21314	22007	23167	23969	24833	25402	26908	28022	28901	29804
2148	4590	7441	13349	19836	20631	21321	22008	23174	23972	24856	25404	26916	28031	28907	29805
2149	4605	7464	13350	19842	20642	21330	22010	23181	23977	24860	25405	26935	28032	28908	29824
2150	4611	7475	13741	19867	20659	21337	22017	23196	23982	24861	25407	26958	28034	28917	29838
2151	4616	7476	14006	19876	20660	21340	22030	23200	23994	24863	25410	26961	28038	28918	29841
2154	4618	7477	14056	19885	20664	21343	22036	23202	23999	24871	25411	26965	28042	28925	29844
2163	4619	7486	14358	19896	20667	21352	22051	23207	24285	24872	25413	26969	28050	28933	29846
2164	4651	7530	14365	19940	20668	21353	22052	23209	24298	24884	25422	26972	28061	28942	29867
2167	4687	7945	15705	19941	20675	21362	22059	23219	24299	24889	25423	27002	28062	28966	29878
2169	4705	7947	15717	19963	20681	21368	22060	23224	24310	24890	25424	27003	28073	28968	29879
2172	4708	7950	15721	19964	20682	21377	22062	23228	24314	24896	25425	27012	28083	28969	29891
2218	4720	7951	15980	19967	20683	21378	22063	23251	24356	24903	25428	27019	28091	28971	29893
2276	4737	7952	15988	19974	20687	21402	22064	23256	24372	24906	25430	27117	28102	28972	29955

The Debentures specified above are to be redeemed for the Sinking Fund (a) at **Citibank, N.A. (formerly First National City Bank), Trustee** under the Indenture referred to above, **No. 111 Wall Street, in the Borough of Manhattan, the City of New York,** or (b) subject to any laws or regulations applicable thereto, at the main offices of Citibank, N.A. in Amsterdam, Brussels, Frankfurt/Main, London (Citibank House), Milan, Paris, and Citicorp Bank (Luxembourg) S.A. and Kredietbank S.A., Luxembourgeoise in Luxembourg. Payments at the offices referred to in (b) above will be made by a United States dollar check drawn on a bank in New York City or by a transfer to a United States dollar account maintained by the payee with a bank in New York City, on March 1, 1985, the date on which they shall become due and payable, at the redemption price of 100 percent of the principal amount thereof, together with accrued interest to the date fixed for redemption. On and after the redemption date, interest on the said Debentures will cease to accrue. Upon presentation and surrender of such Debentures with all unmatured coupons, payment of principal will be made out of funds to be deposited with the Trustee.

The amount of any missing unmatured coupons will be deducted from the sum due for payment. Coupons due March 1, 1985 should be presented for payment in the usual manner.

Gulf Oil Corporation
By: CITIBANK, N.A., as Trustee

January 28, 1985

UK COMPANY NEWS

Stefan Wagstyl on Lucas Industries' renewed profits drive

Electrical side faces testing time

THE RESIGNATION of two top managers at Lucas Industries has focused attention on the comapny's greatest problem—turning round Lucas Electrical, its ailing vehicle components subsidiary.

Mr Keith Wills and Mr Marcus Beresford have left Lucas Electrical—which has not made a profit for at least five years—at a time of renewed drive for higher profitability across the group.

Mr Willis, 48, had been Electrical's managing director and a member of the group's executive committee. Mr Beresford 42, was general manager of the subsidiary's important Lucas Electrical and Electronic Systems operation, which is leading the development of new high-technology products like dashboard computers.

Lucas has refused to comment on the reasons for the resignations.

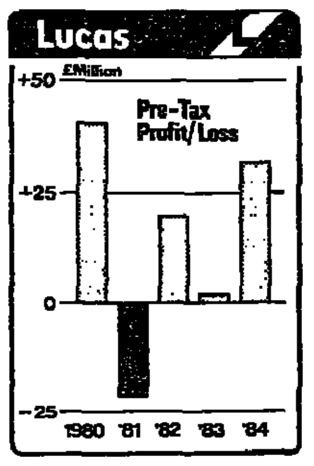
Electrical, which accounts for about £250m out of group turnover of £1.4bn was the Lucas subsidiary that suffered most in the recession. It has found it hardest to adjust to two permanent changes in the automotive industry—the relative decline of UK vehicle manufacture, on which Electrical is dependent, and the technological improvements which have made basic car components last longer and need replacing less often.

In the words of one senior Lucas manager: "Electrical is 20 per cent of our turnover and 80 per cent of our problems."

It is a measure of the scale of these problems that Electrical has accounted for nearly half the total job cuts which Lucas has carried out since recession brought the company to its first-ever loss in 1980-81.

Altogether, nearly 22,000 jobs have been cut in the group, reducing the workforce to 66,000, and £90m has been spent on redundancies and closures.

Mr Godfrey Messervy, chairman and chief executive, and Mr Tony Gill, managing director (who both took office in 1980 after many years in other senior posts) have also reformed the group's management structure, decentralising responsibility and putting a new emphasis on individual performance.



As a result, profits have recovered to £32.6m pre-tax for the year to the end of July. But, as Mr Messervy is the first to admit, £32.6m is a poor return on sales of £1.4bn.

"We must improve our competitiveness against the world market leaders in every sector, and the best in the world are getting better all the time," he says.

So what are the group's prospects for increasing profitability? What chance does Lucas have of meeting its private target of achieving an "acceptable" rate of return in two or three years?

Lucas can feel most confident about its two smaller arms—aerospace equipment with sales of £270m and a strong military and civil order book; and industrial systems which has a turnover of £130m in a wide range of products, including hydraulic components and defence electronics, and a record of successful expansion in the UK and the U.S.

Both aerospace and industrial systems have recovered strongly from recession; in particular rationalisation has made aerospace more competitive against its rivals, which are largely U.S. companies.

However, far more important to Lucas is the strength of its much large automative businesses, especially the three biggest subsidiaries — Lucas Electrical, Lucas Girling, which makes brakes, and Lucas CAV, manufacturer of diesel fuel injection equipment.

In these three operations, Lucas has faced up to broadly the same problems in similar ways. In response to a severe and long-term reduction in British vehicle manufacturing, the group has cut its own UK capacity and tried to accelerate its expanseion overseas, particularly on the Continent and in the U.S. At the same time it has developed new products and started to introduce new manufacturing techniques to increase productivity.

These actions have greatly improved the profitability of Girling and CAV. Girling in particular has expanded well-established operations in France and West Germany and has built a new truck brake plant in Cincinnati in the U.S., which is making profits ahead of schedule.

CAV, which significantly also has a strong presence on the Continent, cut UK capacity in response to recession and is now showing "real recovery," says Lucas, despite the continuing weakness of the commercial vehicles market.

By contrast it is taking far longer to turn around Lucas Electrical, where Mr Wills has been succeeded by Mr Bob Dale, managing director of another subsidiary, Lucas World Service. Mr Beresford's successor has yet to be appointed.

In comparison with Girling and CAV, Electrical has a much larger portfolio of loss-making low-technology products — like batteries which it now makes for just one customer, BL. Also, importantly, it has been much less successful in expanding outside the UK — last year it was forced by heavy losses to pull out of its French electrical associate company, Ducellier.

One City analyst says of Electrical: "There are too many product lines and too many plants. They make too many things which can be imported cheaply."

These are exactly the problems Lucas says it has been trying to tackle. For example, it is currently rationalising Electrical's loss-making starters and alternators business, cutting 700 out of 2,000 jobs.

Godfrey Messervy, the Lucas chairman

Electrical is also attempting to establish itself in one of the few growth areas in the automotive industry—car electronics. Lucas estimates that the value of electronics in a car could grow from about £30 now to over £165 by the end of the decade.

However, Lucas Electrical and Electronic Systems, which is 80 per cent owned by Lucas and 20 per cent by Smiths Industries, is at some disadvantage in this highly - competitive market, because of the relatively small size of the UK car manufacturing industry.

Its major European rival Robert Bosch of West Germany has a home base of 4m cars a year, against 1m for Lucas. In this context, the Ducellier setback was a particularly significant blow to expansion.

So, four years after recession first struck, much remains to be done at Lucas Electrical. But the group rejects the suggestion that it is moving too slowly. Dr Kevin Hawkins, director of public affairs, says: "It is easy to increase profits on paper by cutting everything back quickly. But that capacity and the skilled people are lost for ever. It is much more of a challenge for management to try to turn a business around. That is hte real test in the long term."

Canadian losses put Neepsend back in the red at halftime

Following increased trading losses in Canada, Neepsend has incurred losses before tax of £102,000 for the six months to the end of September 1984, compared with previous profits of £77,000.

At the last year-end there was a return to profits of £145,000 against losses of £792,000, and the directors expressed confidence that the group was "on the right road," although they were also concerned about the effects of a continued coal strike.

The first half downturn occurred after trading losses of £242,000 (£14,000) from Canadian companies (including a related company) which offset a rise in the UK contribution from £437,000 to £502,000. Group trading profits fell from £423,000 to £260,000.

In Canada, the directors say they are "vigorously pursuing" efforts to reorganise activities and perhaps dispose of them. In the meantime, they have reviewed those stocks and pending the usual review at the year end have provisionally written down all the valuations. This has resulted in exceptional losses at the half year and figures have been produced separately.

Hattersley and Ridge is still affected by the miners' strike but the company has been able to obtain some substantial export business, which has enabled it to return to full-time working for the rest of the financial year and beyond. The order books of all the other UK companies are healthy, say the directors.

Interim figures were affected by the increase in interest rates last summer they say and they are again facing a similar situation. Pre-tax figures were struck after interest costs of £362,000 (£346,000).

First half group turnover of this engineering and tool production concern grew from £8.36m to £11.59m.

At the attributable level losses fell from £241,000 to £87,000, following extraordinary losses of £318,000 last time. Losses per share are shown as 0.64p (earnings 0.57p).

The directors say it is too early early to say whether or not results for the full year will permit some final dividend to be paid. In the last full year a single 0.1p payment was again made.

Rayford down by £0.6m but dividend doubled

Folowing losses of £53,000 in the second half at Rayford Supreme Holdings, taxable profits for the year to September 28 1984 fell from £1.81m to £1.21m.

At the interim stage the directors indicated that profits for the year as a whole would not be "significantly different" from the £1.26m made in the first half.

Turnover of this USM-quoted retailer of domestic electrical goods and home entertainment equipment moved ahead by 23 per cent from £20.86m to £25.66m, and the directors report that current levels of trading are ahead of the same period a year ago.

Despite the "isappointing" end of year results the final dividend is lifted from 2.1p to 3.15p net, making 4.9p (2.1p) for the year. This is in line with the dividend forecast at the time of flotation in July 1983.

The fall in profits reflects the setting up costs of seven new showrooms.

With a lower tax charge of £493,000 (£510,000), stated net earnings per share emerged at 12.2p against 23p, after extraordinary debits of £182,000 (£290,000).

COMPANY NEWS IN BRIEF

Edinburgh American Assets Trust's net asset value per 25p share, before loan stock conversion, stood at 246.9p at the end of calendar 1984. This compares with a 239.2p value a year previous.

The single final dividend is 0.9p (0.85p). A one-for-one scrip issue has been proposed.

* * *

Cavenham, the UK holding company and subsidiary of Generale Occidentale of France returned pre-tax profits of £11.5m for the six months to end-September 1984, compared with £10.8m.

After tax charge of £2.4m (£1.1m), profit attributable to ordinary shareholders emerged at £6.4m against £7m.

* * *

Diamond Stylus incurred a taxable loss of £34,041 for the six months to end-September 1984, which compares with a £1,554 profit for the corresponding period last year.

Turnover fell from £850,922 to £760,352. The company manufactures record playing styli.

The attributable loss came out at £46,473 (£4,858) after tax of £12,432 (£6,412). Interim dividends were last paid in 1980.

Share Stakes

Changes in company share stakes announced over the past week include:

Berkeley Exploration—Charterhouse Petroleum purchased for a cash consideration a further 200,000 ordinary shares making a total interest of 2.45m ordinary.

BBA Group—Mr C. M. Fenton sold 20,000 ordinary shares at 53p per share from his own holding, and 15,000 ordinary at 53p each in his capacity as a trustee.

Bristol Channel Ship Repairers—C. H. Bailey sold 3.29m ordinary reducing its interest to 67.56 per cent.

Exco International — John Moreton, a director, sold 200,000 ordinary shares at 615p per share.

Juliana's Holdings—Directors D. and T. Vaughan have each sold 50,000 shares at 212p per share.

Kwik-Fit (Tyres & Exhausts)—Mr Tom Farmer, the chairman, has acquired a beneficial interest in a further 300,000 shares, bringing his total holding to 7.15m shares.

REA Holdings — International Investment Trust Company of Jersey is interested in 2.19m ordinary and 24,600 preference shares.

TMG Group — In December, M. A. Buckley, a director, disposed of his entire holding of 133,932 ordinary (6·7 per cent) at 67p per share.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purposes of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Armour Trust, Equipu, GT Japan Investment Trust, Nilardo Norsk Data A/S, Sutcliffe Speakman, Vibroplant.

Finals: F. Pratt Engineering, Securiguard, Television South.

FUTURE DATES

Interims:	
Courts (Furnishers)	Jan 29
Dalgety	Feb 11
Dom	Jan 29
Kent (John)	Feb 8
Murray Income Trust	Feb 25
Oceana Consolidated	Jan 30
Ransom (William)	Feb 7
Second Alliance Trust	Feb 1
Walker (Alfred)	Feb 1
Finals:	
Alliance Trust	Mar 8
Bluemel Bros	Feb 5
Ford (Martin)	Feb 5
Gaunt (Rowland)	Feb 5
IDC	Jan 29
Kode International	Mar 28
Muirhead	Feb 21
Murray International Trust	Feb 25

† Amended

FINANCIAL TIMES STOCK INDICES

	Jan. 25	Jan. 24	Jan. 23	Jan. 22	Jan. 21	Jan. 18	1984/85 High	1984/85 Low	Since Compilatn High	Since Compilatn Low
Government Secs.	79.62	79.32	80.00	80.30	80.20	80.06	84.77	75.72	127.4	49.18
Fixed Interest	84.14	84.02	84.24	84.14	84.14	83.98	87.48	80.43	150.4	50.53
Ordinary	1002.8	991.7	1003.7	1024.5	1003.9	1004.4	1024.5	755.3	1024.5	49.4
Gold Mines	459.5	442.9	454.3	463.0	463.7	466.3	711.7	439.8	734.7	43.5
FT Act.All.Share	620.20	615.93	618.89	627.28	616.68	614.96	627.28	464.84	627.28	61.92
FT-SE100	1266.0	1274.7	1283.7	1305.7	1279.0	1277.9	1305.7	986.9	1305.7	986.9

	Bid	Offer	Change
Cash Fund	114.9	121.0	+ 0.3
Mixed Fund	148.9	156.8	+ 5.3
Fixed Interest Fund	117.5	123.7	+ 0.3
UK Equity Fund	166.9	175.7	+ 5.8
Property Fund	112.2	118.2	− 1.6
Overseas Fund	163.7	172.4	+ 5.1
Index Linked Fund	101.0	106.4	+ 2.2
Stock Exchange Fund	121.0	127.4	+ 4.4
North American Fund	108.3	114.1	+ 3.1
Far East Fund	101.8	107.2	+ 0.2
Special Situations Fund	105.1	110.7	+ 2.4

Prices January 23 Unit dealings on Wednesday

Clerical Medical Managed Funds Limited

	Bid	Offer	Change
Cash Fund	141.5	141.5	+ 0.3
Mixed Fund	216.0	221.4	+ 7.4
Fixed Interest Fund	184.3	187.0	+ 0.4
UK Equity Fund	244.0	251.3	+12.8
Property Fund	128.2	134.0	− 1.8
Overseas Fund	242.7	254.9	+ 7.5
Index Linked Fund	114.5	116.2	+ 2.4
Stock Exchange Fund	124.7	127.8	+ 4.5

Prices January 23 Unit dealings on Wednesday
Initial unit prices available on request, telephone 0272 290566

RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

Renunciation date usually last day for dealing free of stamp duty.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

BUILDING CONTRACTS

Balfour Beatty busy nationwide

BALFOUR BEATTY CONSTRUCTION has been awarded contracts with a total value of £33m. Orders include four road contracts worth £15.15m. The first is a £3m contract for a dual two-lane Hanley eastern by-pass for Stoke on Trent City Counil, for completion in 24 months. Work includes ground stabilisation, capping disused mine shafts and construction of a three-span post-tensioned concrete bridge carrying the B5049 road over the new by-pass. Sewer diversions, ground level junctions and two roundabouts are also to be built.

The second contract, valued at £3.1m, has been placed by West Yorkshire Metropolitan County Council to construct Dewsbury ring road, which includes 1.4 miles of dual carriageway road, a pedestrian underpass, culverting Dewsbury Beck, and filling a disused railway tunnel. Work will commence in early February and be completed in 30 months.

A 0.6-mile-long realignment of the B8048 Waterside Road at Kirkintilloch, Strathclyde, will be carried out under a £350,000 contract awarded by Strathclyde Regional Council, for completion in six months.

The Scottish Development Authority has placed an £8.7m contract for Musselbrugh by-pass. Work comprises 9.2 miles of dual-carriageway trunk road from old Craighall village to Tranent by-pass and will involve construction of two interchanges and five bridges, including a crossing of the River Esk.

The P.S.A. has placed a £3.57m contract to build five weather shelters at R.A.F. Alconbury. These are steel-framed and clad structures and work includes hardstanding and pavings.

Building contracts include a £3.4m extension at the Royal Brewery, Manchester, for Scottish and Newcastle Beer Productionand includes a new packaging plant, offices, warehouse and external forks.

English Estates has placed a £370,000 contract for two blocks of nursery factory units at Argyle Street, Birkenhead, for completion in 20 weeks.

A second contract has been placed by M. F. I. to build a £4.7m national distribution centre at Nottingham in nine months. This is to be a single-storey extension to a warehouse, and follows from a site preparation contract.

Balfour Beatty is to restore the fire-damaged stand at Aintree racecourse under a £470,000 contract, to be completed by March 17.

Chesterfield Properties has placed a £3.1m contract for a 55,000 sq ft superstore and sevnlevel car park at Basildon, with competition by October.

In Newcastle, the company will build extensions to Freeman Road Hospital under a £2.8m contract from the Northern Regional Health Authority in which a. noperating department and the regional medical physics department will be accommodated.

Whitley Moran, Liverpool-based subsidiary of Balfour Beatty, has been awarded a £100,000 contract for repairs to two 13-storey blocks of flats in Sheffield. This award has been made by Gleesons, managing contractor for Sheffield Metropolitan District Council, and provides for testing and remedial works to the precast concrete units of which the blocks are built.

Kyle Stewart wins £12m stores work

Contracts totalling more than £12m for a new shopping development in Northampton for Tesco, and a Texas Homecare store in Wellingborough, Northants., have been awarded to KYLE STEWART. Work on the Tesco superstore at the 17-acre Southern District Centre site two miles south of Northampton town centre, is to begin soon, with completion due by the spring of 1986. A design-and-construct contract worth about £5m, it consists of a 65,000 sq ft store, a petrol filling station, five shop units, a public house, parking for 750 vehicles, a bus lay-by, pedestrian and cycleways, and landscaping. Construction will be of reinforced concrete and steel lattice-beam frame, with brick cladding and slate mansard roofs.

At Sywell Industrial Estate, Wellingborough, work is to start today on construction of a £7m Texas Homecare store on a 16-acre site. The 270,000 sq ft store will be of steel frame construction on concrete pad foundations, with profiled metal cladding to the store, and brick and block-work cladding to office areas.

*

A £1.2m contract has been awarded to RYTON, a Taylor Woodrow company, by Rank Hotels to convert the central courtyard of the Gloucester Hotel, SW7, into London's most modern conference and banqueting centre. The project, which has started for completion in August, comprises enclosure of the court yard, known as the Japanese Garden, by a steel-structured pitched roof.

£18m London Commodity Exchange

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

TAYLOR WOODROW Construction has been awared an £18.3m contract to build the eight-storey 126,500 sq ft building by Tower Bridge which will provide the new headquarters for the London Commodity Exchange.

The order has been placed by Taylor Woodrow subsidiary St Katharine-by-the-Tower, the company which is redeveloping the site, now one of London's major tourist attractions, as well as a business centre.

Previous developments on the site—by the old St Katharine's Dock within sight of the Tower of London—include the Tower Hotel, Ivory House, the World Trade Centre, 300 houses and flats, and a chapel. All were built by Taylor Woodrow Construction.

Taylor Woodrow won a Greater London Council competition in 1969 for the best scheme to redevelop the area, and St Katharine-by-the-Tower is the company it set up to implement its winning plan.

The new building will be the first major commodity exchange built in London since the construction of the Baltic exchange, with trading halls provided with a communications system linking it to every other commodity market in the world.

The contract involves breaking-out extensive brick vaults built by prisoners of the Napoleonic Wars, and the completed building will be offered to commodity trading organisations for occupation in 1987.

The development includes a block of ten flats, which will be linked to the main building.

Overlooking the boat-filled St Katharine's Dock, the facade will be clad with brick and natural stone and will have a colonnaded walkway. Design is by Mr Peter Witherington, architect to St Katharine-by-the-Tower.

£3.6m college project goes to Mowlem

A £3.6m contract for two buildings at Royal Holloway College, Egham, has been awarded to JOHN MOWLEM. Work comprises construction of a four-storey life sciences building fitted out with laboratories and a three-storey arts and mathematical sciences building containing laboratories, offices and seminar rooms. Both will be of reinforced concrete frame with a steel frame roof and timber curtain walling. The client is Royal Holloway and Bedford Colleges, University of London. Work has started for completion in May, 1986.

NORWEST HOLST PROJECT SERVICES has begun work on a £1.7m swimming pool and leisure complex at Thamesmead. It involves a six-lane pool 25 metres by 13 metres and a learner pool, 12 metres by 9 metres. Particular attention is being given to access and facilities for the disabled and very young children. There will be changing rooms, refreshment areas, administration offices, car parking and landscaping. Trust Thamesmead is undertaking the project with grants from the GLC, Greenwich Council and the Sports Council.

Four contracts worth over £4m have boosted JAMES GIBBONS WINDOWS order book. Work include a £2m design and installation contract for curtain walling on BOC's new headquarters at Windlesham. The second contract, worth £1m, is to design and install windows on Richmond Terrace, the new Government building opposite Downing Street and the Cenotaph. The third contract, worth £500,000, is in Reading where James Gibbons is designing and installing the window system on a 10 storey office refurbishment. The latest contract is for windows and curtain walling at 4/5 King William Street, EC4, worth £630,000.

APPOINTMENTS

Savills managing partner

SAVILLS has appointed Mr George F. F. Inge as managing partner from May 1 in succession to the present joint senior partners Mr J. C. Wilson and Mr J. G. Thompson. Mr P. C. Oswald is made partner responsible for business development and Mr R. L. Dean becomes finance partner.

*

Mr George Hazle becomes business development director while Mr Alan Soper is promoted to director and area general manager of BRS MIDLANDS.

*

MORAY FIRTH MALTINGS, now a subsidiary of Scottish & Newcastle Breweries, has made the following board changes. Mr Edward G. Davies and Mr A. K. Stewart have resigned. Mr Roy Summers, a main board director of S & NB, and Mr Derek Wilkinson, group financial controller of S & NB, have been appointed to the board. Mr Summers becomes chairman.

*

The FEDERATION OF MANUFACTURERS OF CONSTRUCTION EQUIPMENT AND CRANES has appointed as president for the next 18 month Mr Chris Banham, sales and marketing director of Aveling Barford.

*

The UNITED KINGDOM BOATMEN'S ASSOCIATION has elected Captain H. F. Mathison, general manager of the port services division of Humberside Sea and Land Services at Immingham as president.

*

Mr Paul Norrington has been appointed to the board of STAG ELECTRONIC DESIGNS. He joined the company in 1982 as sales and marketing manager.

*

Mr John H. Loynes and Mr Nigel R. H. O. Harley have been appointed directors of UNIONAMERICA INSURANCE CO. upon the resignation of Mr William F. W. Fellowes and Mr William D. Warren. All are U.S. residents. Following Mr Warren's retirement, Mr Andrew J. G. Banks, currently managing director, becomes chairman. Mr Fellows retires after an illness. Mr Warren's departure follows the sale by The Continental Corporation of National Reinsurance Corporation, of which he is chairman and chief executive officer, to Lincoln National Group. Unionamerica is a wholly-owned subsidiary of The Continental Corporation. Formed in 1971, it underwrites non-marine insurance and reinsurance, principally of U.S. origin, in the London market.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

[illegible]

Closing prices, January 25

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23½	16⅞	AAR	.42	2.4	15	408	20⅞	20½	20⅝	-½
20¼	9⅞	AGS			12	241	15¾	15¼	15⅜	+⅜
21	12⅞	AMCA	1	7.6		11	13½	13	13⅛	-⅛
17⅞	12⅞	AMF	.50	3.2	87	166	15½	15⅜	15⅝	+⅛
51½	45⅜	AMF	pf 5e	9.8		1	51	51	51	+½
38⅞	24¼	AMR			9	4411	u39¼	37⅞	38⅞	+1
20⅞	16¼	AMR	pf2.18	11.		31	19½	19⅜	19⅝	
39	27½	AMR	pf2.12e	5.5		363	39	37⅞	38½	+1
25¼	22⅞	ANR	pf2.67	11.		5	24⅛	24	24	-⅛
14¼	8½	APL			3	4	10½	10⅜	10⅜	
66¼	44½	ASA	3	5.2		515	48⅞	48	48⅞	
26⅞	16	AVX	.32	1.7	11	377	18½	18	18⅜	-⅛
48¼	33⅜	AbtLab	1.20	2.7	14	2393	45½	45⅞	45¼	+⅛
24	16½	AccoWd	s.44	1.8	21	1536	u24⅞	23⅞	24⅞	+⅞
27	12½	AcmeC	.40	2.2		1378	19¼	17½	18½	+1
12⅛	8¼	AcmeE	.32b	3.4	11	268	9⅞	9½	9½	-½
17⅞	15	AdaEx	2.11e	13.		67	16⅞	16¼	16⅛	+⅛
16⅞	11⅞	AdmMl	.32	1.9	9	11	17	16⅞	17	+¼
20¼	8⅞	AdvSys	.81t	6.2	21	517	13⅛	12¼	13	-½
41⅛	25⅞	AMD			14	5329	35⅛	34	34⅞	+⅞
12⅞	6⅞	Advest	.12	1.2		225	10⅜	10	10⅜	+⅛
15⅞	8⅞	Aeroflex			13	102	13⅞	13¼	13½	+⅛
39	27⅞	AetnLf	2.64	6.8	33	1848	u39⅞	38⅞	39	+⅛
58⅞	50⅞	AetL	pf5.67e	11.		2	55⅜	55⅜	55⅜	-⅛

A-A-A

B-B-B

C-C-C

D-D-D

E-E-E

F-F-F

G-G-G

H-H-H

I-I-I

J-J-J

K-K-K

L-L-L

M-M-M

N-N-N

O-O-O

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هكذا من الأصل

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, January 25

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
7¼	5⅜	ADI	n		21	82	5⅝	5¼	5¼	
3¾	1⅞	ADI	wt			68	2½	2⅜	2⅜	−¼
3	¼	AICPh				10	1¼	1¼	1¼	
15⅞	6¼	ALLab	n.20	1.7	11	17	12	11⅞	12	−⅛
16¾	12	AMC	n .12	.7	13	51	16⅝	16¼	16¼	−⅛
4⅞	2⅞	AM	Intl			441	3¾	3⅝	3¾	
74½	68	ATTFd	n5.58e	7.4		157	u74¾	74	74½	+¼
6⅞	2⅛	AcmePr			39	44	5⅞	5¼	5⅞	−⅛
15⅞	8½	AcmeU	.32	3.3	11	28	9⅞	9¾	9¾	−⅛
17	8¾	Action			40	836	16¼	15¾	16	
9¼	3⅞	Acton				55	4⅞	4⅝	4⅞	
3⅝	1½	AdmRs			3	36	2¾	2⅝	2⅝	
37⅞	15⅞	AdRusl	.14	.5	20	68	26¾	25¼	26¼	
24¾	15	Adobe	.28	1.6	12	289	18	17⅞	17⅞	+⅛
8⅞	4½	Aeronc			7	29	6⅛	6⅛	6⅛	−⅛
35½	16½	AffilHap	.44	1.2	15	27	35½	35½	35½	
51⅞	38½	AffPub	.80	1.6	16	20	u51⅞	50⅝	51⅞	+¼
9¾	6	AirExp			9	31	7½	7¼	7⅜	+⅛
14¼	5⅞	Aircal				68	9⅛	8¾	8⅞	
5¼	2⅞	Alamco			7	11	3⅞	3¾	3⅞	+⅛
75⅞	65½	Almtop	n			105	72¾	71	72¾	+¾
14	6¾	AlbaW			9	13	8½	8⅛	8⅛	−¼
81	59½	AlgC	wt			2	73½	73½	73½	+¾
9¼	5⅞	Aloha			1	5	6⅛	6¼	6¼	−⅛
19⅞	9½	Alphain	.05	.4	15	68	11⅝	11⅜	11½	−⅛
1⅞	½	Altex				101	1¼	1⅛	1¼	+⅛
34¾	26⅝	Alcoa	pf3.75	11.		z5050	33⅝	33	33½	
25⅞	11	AlzaCp			50	354	24¼	23½	23⅝	
19⅞	9½	Amdahl	.20	1.3	20	3227	16	15½	16	+⅜
16⅞	8½	Amedco	.08	.8		47	10¾	10	10½	+½
7¼	4⅞	AmBilt	.15	2.1	5	238	7¼	7	7¼	+⅛
9⅝	4	AmCap				6	6	6	6	−⅛

Continued on Page 26

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 24

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
49½	36½	Whrlpl	2	4.2	9	1659	47¾	47	47¼	−1
45	24½	WhitC	1.50	4.9	9	460	31¼	30¾	30⅞	−⅝
49	47½	WhitC	pfA3	6.3		1	47¾	47¾	47¾	
39⅞	17⅞	Whitehl			10	95	25¾	25	25¾	+⅛
23⅞	14½	Whittak	.60	2.5	8	206	23⅞	23¾	23¾	
9	6⅞	Wiebldt		5.3		9	8⅛	8½	8¼	−⅛
13⅞	8	Wilfrd	n			285	u13⅝	13⅛	13½	+⅛
31⅞	22¾	Willam	1.40	4.8	6	391	29½	28⅞	29⅛	−¼
8⅛	2	WilmEl				54	3⅛	3	3	
10⅞	6⅛	WilshrO	.10	1.6	16	13	6⅛	6¼	6¼	−⅛
35	25¾	WinDix	1.68	5.1	12	308	33¼	32½	33⅛	−⅜
18	7⅛	Winnbg	.10e	.6	16	1508	17⅜	17¼	17⅜	+⅛
14¾	5⅛	Winner			14	46	7	6¾	6¾	−¼
10⅝	3¾	WinterJ				13	4⅝	4½	4½	
33⅝	25¾	WiscEP	2.28	7.3	7	744	31⅝	31¼	31⅛	−⅛
79	68⅞	WisE	pf8.90	11		z100	77½	77½	77½	−½
31	25⅝	WiscPL	2.64	8.9	8	x415	30	29½	29⅝	
32⅞	24¾	WiscPS	2.56	8.2	7	41	31⅞	31⅛	31⅛	−⅛
39¼	27⅞	Witco	1.48	3.9	9	252	38½	38	38¼	
17⅞	9½	WolvrW	.24	2.0	17	553	12⅛	11¾	12	+⅛
27½	18⅝	WoodPt	.72	3.4	15	258	21¼	21	21	−¼
43⅞	29⅞	Wolwth	1.80	4.3	10	796	42¼	41¾	42⅛	+⅛
60¼	42½	Wolw	pf2.20	3.7		7	59¾	59½	59¾	−1
5⅛	2⅞	WrldAr				101	4⅛	4	4	
61	45	Wrigly	1.80a	3.1	10	5	57⅞	57⅞	57⅞	+⅛
7⅞	3⅛	Wurltzr				6	3¾	3⅝	3⅝	−⅛
22⅞	10⅜	WyleLb	.32	2.0	10	119	15⅞	15½	15¾	+⅛
21	16½	Wynns	.60	2.9	8	67	u21⅛	20¾	21	+⅛
		X–Y–Z								
49¾	33¾	Xerox	3	7.0	13	3591	43½	42⅞	43⅛	
50½	45¼	Xerox	pf5.45	11		526	u50⅞	50⅛	50⅝	+⅝
34⅛	19	XTRA		2.4	10	220	27	26½	26¾	
29¾	24	ZaleCp	1.32	4.9	8	36	26⅞	26½	26⅞	+⅜
24⅞	14½	Zapata	.84	5.3	13	993	16	15¾	16	+⅛
54¼	28¾	Zayre	.40b	.8	14	190	52⅜	51⅝	51½	−1⅛
36½	18⅛	ZenithE			8	3935	23¾	22½	23½	+⅜
28	18	Zero	.40	1.5	19	85	u26¼	25¾	26¼	+⅛
29⅞	21⅛	Zurnin	1.32	4.6	11	74	29½	28¾	29	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s) b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER *Nasdaq national market, closing prices January 25*

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AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 25

[illegible]

CANADA

TORONTO
Closing prices January 25

[illegible]

MONTREAL
Closing prices January 25

[illegible]

DENMARK

1984/85 High	Low	Jan. 25	Price Kr.
362	216	Andelsbanken	284
730	510	Baltic Skand	605
250	207	*CopHandelsbank*	282
850	460	D. Sukkerfab	515
335	205	Danske Bank	284
1,900	930	De Danske Luft.	1,120
218	129	East Asiatic	159
1,350	720	Forenede Brygg.	606
153	65	Forenede Damp.	94
700	352	GNT Hldg	404
725	540	I.S.S.B.	385
760	443	Jyske Bank	535
3,150	1,200	*Novo Ind.*	1,490
372	203	Privatbanken	242
370	233	Provinsbanken	399
300	200	Smidth (F.)	234
1,376	845	Sophus Berend	920
588	404	Superfos	464

AUSTRIA

1984/85 High	Low	Jan. 25	Price %
229	202	Credit'stalt Pfd.	226
342	316	Goesser	340
415	381	Interunfall	415
229	203	Laenderbank	226
389	300	Perlmooser	356
167	139	Steyer-Daimler.	159
271	206	Veitscher Mag	271

FRANCE

1984/85 High	Low	Jan. 25	Price Frs.
1,999	1,625	Emprunt 4½% 1973	1,630
10,020	7,625	Emprunt 7% 1973	7,625
249	202	Accor	249
579	497	Air Liquide	575
[illegible]			

NORWAY

1984/85 High	Low	Jan. 25	Price Kroner
190	140	Bergens Bank	168
385	215	Borregaard	378
190	149	Cristiania Bk	181
188.8	142	Den Norsk Credit	168
187.5	105	Elkem	132
180	132.5	Kvaerner	177.5
417.5	252	Norsk Data	408
137.5	95	Norsk Hydro.	103.5
272.5	172	Storebrand	227.5

ITALY

1984/85 High	Low	Jan. 25	Price Lire
19,750	14,100	Banca Com'le	17,700
192	89	Bastogi IRBS	177.5
2,595	1,418	*Centrale*	2,290
4,655	3,511	Credito Varesino	4,199
4,625	1,675	Fiat	2,420
59	27	Finsider	55
39,300	29,050	Generali (Assic.)	37,985
3,485	2,621	Invest	2,935
78,000	40,600	Italcementi	75,700
574	346	La Rinascente	560
1,470	1,112	Montedison	1,455
6,550	3,865	Olivetti	6,290
3,800	2,464	Pirelli Co	3,775
2,139	1,419	Pirelli Spa	2,104
3,550	1,336	Snia BPD	2,550
14,600	10,750	Toro Assic	14,400
11,310	8,050	do. Pref	10,749

SPAIN

1984/85 High	Low	Jan. 25	Price Pta %
[illegible]			

SWITZERLAND

1984/85 High	Low	Jan. 25	Price Frs.
[illegible]			
7,900	6,450	Sandoz (Br)	7,900
1,250	940	Sandoz (Pt Cts)	1,250
715	460	Schindler (Pt Cts)	710
4,010	810	Sika	1,120
4,175	3,410	Surveillance	4,100
1,118	900	Swissair	1,118
371	309	Swiss Bank	371
9,500	7,050	Swiss Reinsce	9,440
1,590	1,320	Swiss Volksbk	1,490
3,700	3,150	Union Bank	3,700
3,585	2,770	Winterthur	3,565
20,100	16,550	Zurich Ins	20,100

GERMANY

1984/85 High	Low	Jan. 25	Price Dm
115.7	80	AEG-Telef.	107.8
1,073	607.5	Allianz Vers	1048xr
185.9	146.5	BASF	178.4
195.4	152.2	Bayer	188
340	247	Bayern-Hypo	321
358	287	Bayern-Verein	340
316	219	BHF Bank	292
453	290.5	BMW	373.5
247.5	192	Brown Boveri	192
190	136.5	Commerzbank	173
141.4	107.4	Conti Gummi	122.3
638	515	Daimler-Benz	626.5
412	338	Degussa	347
192.5	136.5	D'sche Babcock	155
405.7	302.1	Deutsche Bank	396.5
197.8	138.5	Dresdner Bank	193
172.8	126.5	GHH	166.5
625	450	Hochtief	475
195.5	155.5	Hoechst	183
132.5	87.5	Hoesch Werke	102
466	349	Holzmann (P)	396.5
203	151	Horten	177
312	210	Hussel	288
283	219.8	Karstadt	226
269.8	188	Kaufhof	212
284.5	212	KHD	246xr
78.5	47.9	Kloeckner	74.5
418	336	Linde	397.5
195.5	133	*Lufthansa*	188
169.5	125	MAN	162.5
158.6	131.5	Mannesmann	154
605	449	Mercedes Hld	540.5
249	200	Metallgesell.	223
1,399	910	Muench Rueck	1220
548	458	Nixdorf	531
1,115	918	Porsche	1065
288	216.5	Preussag	247
186.8	125.5	Rhein West Elect	164.5
291	240	Rosenthal	240
485	317	*Schering*	465
501.5	353.5	Siemens	495.2
94.5	69.3	Thyssen	87.5
198	160	Varta	177
185	159.5	Veba	170.7
137.9	108.5	V.E.W.	122.5
355	265	Verein-West	309
231.8	163	Volkswagen	196.5

AUSTRALIA

1984/85 High	Low	Jan. 25	Price Aust. $
5.93	4.27	ANZ Group	4.68
1.06	0.50	Alliance Oil Dev.	1.06
2.11	1.40	Ampol Pet.	1.76
1.05	0.75	Ashton	0.77
1.98	1.65	Aust. Cons. Ind	1.94
3.4	2.35	Aust Guarantee	2.8
2.75	1.90	Aust. Nat. Inds.	2.5
2.46	1.80	Aust. Paper	2.42
6.40	3.90	Bell Group	5
8.90	3.50	Bell Res.	4.45
1.72	1.15	Bond Corp Hldgs	1.25
4.00	3.02	Boral	3.3
2.72	1.42	Bougainville	1.85
3.72	2.50	Brambles Ind	3.65
4.62	2.05	Bridge Oil	2.05
6.08	4.88	B.H. Prop.	5.16
6.20	4.46	CRA	5.18
4.28	2.7	CSR	2.75
4.56	3.82	Carlton & Utd	4.30
5.56	4.08	Castlemaine Tys	4.55
4.24	3.30	Coles (G.J.)	4.12
3.22	2.00	*Comalco "A"*	2.35
1.30	0.37	Consolidated Pet	0.47
1.6	1.10	Costain Aust.	1.25
2.15	1.45	Dunlop Aust.	2.12
3.53	2.33	Elders IXL	3.02xc
1.80	1.30	Energy Res	1.43
2.40	1.85	Gen. Prop. Trust	2.25
3.95	2.88	Hardie (James)	3.02
3.3	1.90	Hartogen Energy	2.15
4.55	2.95	Herald W'y Times	4
2.35	1.75	ICI Aust.	2.18
0.48	0.18	Jimberlana F.P.	0.3
0.20	0.1	Kiaora Gold	0.11
6.5	4.50	Land Lease	5.54
3.98	2.22	MIM	2.44
4.86	2.12	Mayne Nikless	3.13
2.15	1.59	Myer Emporium	1.87
3.92	3.00	Nat. Aust. Bank	3.68
12.60	8.0	News	12.4
5.2	2.45	Nicholas Kiwi	5.18
3.52	1.90	North Bkn Hill	2.18
1.11	0.61	Oakbridge	0.66
1.48	0.9	Pancont'l	0.96
2.09	1.1	Pioneer Conc	1.67
5.10	2.5	Posiedon	2.6
1.26	0.94	Queensland Coal	1.22
3.2	2.4	Reckitt & Coln.	3.3
1.40	1.06	Repco	1.08
8.20	5.16	Santos	5.04
4.40	3.20	Smith (Howard)	3.6
2.48	1.53	Thos. Natwide	1.89
5.9	4.98	Tooth	6.8
4.05	2.55	Vamgas	3.1
4.45	2.60	*Western Mining*	3.05
4.08	3.38	Westpac Bank	3.48xt
1.35	0.85	Woodside Petrol.	0.9
3.65	2.2	Woolworths	3.88
3.82	3.15	Wormald Intl.	3.15

NETHERLANDS

1984/85 High	Low	Jan. 25	Price Fls
215	153	ACF Holding	200
164	107	AEGON	162.5
236	168.5	Alhold	215.8
122.2	77	AKZO	103.2
445	202	ABN	382.5
228.5	141.9	AMEV	224.1
82	51.6	AMRO	72.6
222	144	Bredero Cert	155.5
82	8.8	Bos Kalis Westm	13.3
87.5	61	Buehrmann-Tet.	87.5
41.5	30.1	Calland Hldgs	35.6
164	134	Dordtsche Pet'm	163.6
121.8	73	Elsevier-NDU nv.	116
94.8	41	Fokker	90
183.5	130.7	Gist-Brocades	182.7
157.4	116	Heineken	155.8
70.5	41.6	Hoogovens	63.4
46.6	32.6	Int-Mueller	43.5
49.5	30.0	KLM	48.6xa
50.5	34.4	Naarden	49.6
293.5	196	*Nat Ned Cert*	289.2
198	132	Ned Mid Bank	165.8
165.8	99.7	Nedlloyd	158
304	212	Oce Grinten	303
34.5	24.4	Ommeran (Van)	29
77	53	Pakhoed	71
60	41.7	Philips	59.4
74.2	58.3	Robeco	73.8
139	130.1	Rodamco	135.6
67.6	55.3	Rolinco	67.5
43.9	39.6	Rorento	43.8
183.3	136.2	Royal Dutch	183.3
338	232.5	Unilever	336.8
147	90	VMF Stork	146.8
221.5	137	VNU	219.9
145.5	72.5	West Utr Bank	107

BELGIUM/LUXEMBOURG

1984/85 High	Low	Jan. 25	Price Frs.
[illegible]			1,800
[illegible]			5,530
[illegible]			4,400
[illegible]			2,470
[illegible]			250
[illegible]			5,645
[illegible]			2,770
[illegible]			8,000
[illegible]			2,085
[illegible]			2,925
[illegible]			1,990
[illegible]			3,595
[illegible]			6,960
[illegible]			2,040
[illegible]			7,650
[illegible]			10,100
[illegible]			6,670
[illegible]			10,150
[illegible]			3,205
[illegible]			1,805
[illegible]			6,910
[illegible]			4,010
[illegible]			1,450
[illegible]			3,750
[illegible]			4,925
[illegible]			2,200

SWEDEN

1984/85 High	Low	Jan. 24	Price Kronor
400	330	AGA	360
302	170	Alfa-Laval	201
480	280	ASEA (Free)	340
640	300	Astra (Free)	420
141	95	Atlas Copco	111
631	205	Cardo (Free)	275
192	114	Cellulosa	131
288	215	Electrolux B	261
390	244	Ericsson	257
370	250	Esselte	320
375	218	Mo Och Domsjo.	279
247	163	Pharmacia	200
609	310	Saab Scania Free	445
425	310	Sandvik	380
425	257	Skandia	285
75	50.0	Skan Enskilda	56.5
222	154	SKF	187
197.5	145	St. Kopparbergs	160
237	169	Sven Handelsbn.	187
380	215	Swedish Match	250
272	189	Volvo B (Free)	251

SINGAPORE

1984/85 High	Low	Jan. 25	Price $
3.14	1.5	Boustead Hldgs.	1.51
3.14	2.42	*Cold Storage*	2.42
10.70	4.98	DBS	6.65xa
6.00	4.62	Genting	4.96
2.91	1.88	Haw Par. Bros	1.91
4.74	2.87	Hong Leong Fin.	2.9
3.65	2.31	Inchcape Bhd.	2.45
3.65	1.4	*Keppel Shipyard*	1.43
10.40	5.35	Malay Banking	5.5
3.32	2.2	Malay Utd. Int.	2.25
2.27	0.89	Multi Purpose	0.93
11.80	8.5	OCBC	8.65
6.05	3.04	OUB	3.76
2.55	1.62	Public Bank	1.65
2.87	1.63	Sime Darby	1.72
6.35	5.7	Singapore Press.	6.35
6.95	4.22	Straits Trdg	4.3
3.99	2.65	Yate Lee Bk.	2.68
5.90	4.12	UOB	4.38

HONG KONG

1984/85 High	Low	Jan. 25	Price H.K.$
29.7	17.8	Bank East Asia	24.4
14.5	6.15	Cheung kong	13.7
15.1	7.5	China Light	15
4.35	1.14	Evergo	1.66
49.25	25.9	Hang Seng Bank.	46.75
8.0	5.05	HK Electric	8.0
5.95	2.75	HK Kowloon Wh.	5.65
4.52	2.02	HK Land.	4.42
9.3	5.2	HK Shanghai Bk.	9.05
60.5	35.5	HK Telephone.	60.5
20.6	8.4	*Hutchison Wpa*	20.8
14.4	5.5	Jardine Math	9.25
5.7	2.25	New World Dev	5.55
2.87	1.95	Orient O'seas.	2.72
4.0	2.02	O'seas Trust Bnk	2.8
9.7	4.12	SHK Props.	9.4
2.60	1.44	Shell Elect.	2.0
25.6	12.9	Swire Pac A.	25.2
6	2.65	TV B	5.5
4.4	2.85	Wheel'k Mard A.	4.3
2.3	1.10	Wheel'k Maritime	1.1
2.6	1.37	World Int. H'ldgs	1.85

JAPAN

1984/85 High	Low	Jan. 25	Price Yen
1,270	980	Ajinomoto	1,090
2,860	1,830	Alps Electric	2,010
1,310	885	Amada	1,110
738	400	Asahi Chem.	650
978	655	Asahi Glass	880
653	510	Bridgestone	546
1,670	1,070	Canon	1,330
1,870	1,040	Casio Comp.	1,700
1,170	940	Chugai Pharm.	1,040
709	446	Citizen	570
737	620	Daiei	631
1,180	875	Dai Nippon Ptg	945
610	435	Daiwa House	552
490	307	Ebara	348
1,570	965	Eisai	1,580
12,900	7,305	Fanuc	11,200
1,450	500	Fuji Bank	1,290
2,310	1,450	Fuji Film	1,720
1,210	752	Fujisawa	1,150
1,640	1,080	Fujitsu	1,100
2,080	1,490	Green Cross	1,880
453	320	Hasegawa	383
884	527	Heiwa Real Est.	621
1,000	780	Hitachi	860
1,950	1,020	Hitachi Credit	1,150
1,490	984	Honda	1,410
899	671	House Food	700
2,870	1,460	Hoya	2,100
380	274	Itoh (C.)	355
2,630	1,740	Ito Yokado	2,530
2,420	1,180	Iwatsu	1,490
404	313	JACCS	351
5,650	2,460	JAL	5,380
884	715	Jusco	710
330	263	Kajima	278
860	660	Kao Soap	802
761	580	Kashiyama	606
625	510	Kirin	550
1,150	890	Kokuyo	911
545	400	Komatsu	468
765	632	Konishiroku	720
343	295	Kubota	330
555	416	Kumagai	546
8,440	5,250	Kyoto Ceramic	8,800
535	380	Maeda Const	467
1,650	1,080	Makino Milling	1,300
1,320	887	Makita	1,140
415	265	Marubeni	310
700	635	Marudai	540
1,450	1,000	Marui	1,040
2,010	1,350	MEI	1,560
791	602	M'ta Elec. Works	651
1,410	800	M'bishi Bank	1,470
689	501	M'bishi Corp	530
449	361	M'bishi Elect	400
606	433	M'bishi Estate	550
273	216	MHI	236
390	321	Mitsui Co.	335
778	589	Mitsui Estate	655
406	334	Mitsukoshi	384
991	620	NGK Insulators	912
232	191	Nihon Cement	230
1,630	1,300	Nippon Denso	1,380
1,540	1,050	Nippon Elect	1,190
369	280	Nippon Express	335
1,770	600	Nippon Gakki	1,800
[illegible]			

SOUTH AFRICA

1984/85 High	Low	Jan. 25	Price Rand
[illegible]			

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 26

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Indices

NEW YORK-DOW JONES

	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 18	1984-85 High	1984-85 Low	Since Compilation High	Since Compilation Low
Industrials	1,276.06	1,278.43	1,274.73	1,259.50	1,261.37	1,227.36	1286.64 (6/1/84)	1088.57 (24/7)	1287.70 (19/11/83)	41.22 (2/7/32)
Transport	606.73	604.52	603.85	594.11	593.22	577.72	612.63 (9/1/84)	444.03 (25/7)	612.63 (9/1/84)	12.32 (8/7/32)
Utilities	148.18	147.93	148.70	147.83	147.77	147.57	149.93 (18/12)	122.25 (15/6)	163.72 (20/4/69)	10.5 (28/4/42)
Trading vol	122m	180m	144m	174m	146m	104m	–	–	–	–

	Jan 18	Jan 11	Jan 4	Year Ago (Approx)
Ind Div Yield %	4.91	4.94	5.08	4.33

STANDARD AND POORS

	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 18	1984-85 High	1984-85 Low	Since Compilation High	Since Compilation Low
Industrials	198.55	198.81	198.68	196.55	195.13	191.26	198.55 (25/1/85)	167.74 (24/7)	198.56 (25/1/85)	3.62 (30/6/32)
Composite	177.35	176.71	177.20	176.48	175.23	171.32	177.35 (25/1/85)	147.82 (24/7)	177.35 (25/1/85)	4.40 (1/6/32)

	Jan 23	Jan 16	Jan 9	Year Ago (Approx)
Ind div yield %	3.85	4.00	4.15	3.76
Ind. P/E Ratio	11.14	10.71	10.31	13.49
Long Gov Bond Yield	11.19	11.51	11.40	11.54

N.Y.S.E ALL COMMON

Jan 25	Jan 24	Jan 23	Jan 22	1984-85 High	1984-85 Low
102.42	102.03	102.27	101.28	102.42 (25/1/85)	85.13 (24/7)

RISES AND FALLS

	Jan 25	Jan 24	Jan 23
Issues traded	2,028	2,059	2,042
Rises	971	902	1,165
Falls	613	746	485
Unchanged	444	411	392

NEW YORK ACTIVE STOCKS

Thursday	Stocks traded	Closing price	Change on day
AT&T	3,195,200	21¾	+ ⅛
Fed. Nat. Mort.	2,937,900	16¾	+ ¼
Phillips Pet.	2,470,600	48	+ ½
Southern	2,306,400	18½	− ¼
Merrill Lynch	2,253,800	32	+ ⅝
Ford Motor	1,915,300	49⅜	− 1¼
Chrysler	1,903,200	35½	+ ⅛
IBM	1,824,500	133⅛	+ ⅝
Pan-Amer.	1,528,800	4⅞	—
Hewlett-Pack'd	1,407,100	34⅝	+ ⅝

TORONTO

	Jan 25	Jan 24	Jan 23	Jan 22	1984-85 High	1984-85 Low
Metals & Minls	2,145.5	2,124.6	2,115.60	2,093.1	2524.4 (12/1/84)	1641.2 (25/7)
Composite	2,547.8	2,525.9	2,500.82	2,491.8	2585.7 (6/1/84)	2079.7 (24/7)
MONTREAL Portfolio	128.40	127.11	124.25	124.46	128.40 (25/1/85)	100.36 (24/7)

* Indicates pre-close figure

H–H to T–T (continued stock listings)

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

NOTICE OF REDEMPTION
To the Holders of

Finance for Industry International B.V.

(now Investors in Industry International B.V.)

14½% Guaranteed Sterling/U.S. dollar payable Bonds 1988

NOTICE IS HEREBY GIVEN that, the Annual Redemption due 1st March, 1985 has been carried out by a selection by-lot of £1,500,000 nominal Bonds on the 10th January, 1985 for redemption at par as follows:

Outstanding Bonds of £1,000 Each Bearing Serial Numbers Ending in the Following Two Digits:

05 13 14 20 33 39 44 78

Also Bonds of £1,000 Each Bearing the Following Serial Numbers:

5	1038	2138	3538	4538	5938	6938	7338	8938	9938	10938	15038	16038	17238	18238	19238
138	1138	2438	3638	4638	6038	7038	8038	9038	10038	11038	15138	16138	17338	18338	19338
238	1238	2538	3738	4738	6138	7138	8138	9138	10138	11138	15238	16238	17438	18438	19438
338	1338	2638	3838	4838	6238	7238	8238	9238	10238	11338	15338	16438	17538	18538	19538
438	1438	2738	3938	4938	6338	7338	8338	9338	10338	11438	15438	16538	17638	18638	19638
538	1538	2838	4038	5138	6438	7438	8438	9438	10438	11738	15538	16638	17738	18738	19738
638	1638	3038	4138	5538	6538	7538	8538	9538	10538	11838	15638	16738	17838	18838	19838
738	1738	3138	4238	5638	6638	7638	8638	9638	10638	11938	15738	16938	17938	18938	19938
838	1838	3338	4338	5738	6738	7738	8738	9738	10738	14838	15838	17038	18038	19038	
938	2038	3438	4438	5838	6838	7838	8838	9838	10838	14938	15938	17138	18138	19138	

Said Bonds may be presented for payment to **Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, New York 10015** or to the other Paying Agents named on the Bonds.

Bonds surrendered for redemption should have attached all unmatured coupons appurtenant thereto. Coupons due 1st March, 1985 should be detached and collected in the usual manner.

PAYMENT WILL BE MADE ON 1st MARCH, 1985 AGAINST SURRENDER OF BONDS IN STERLING OR, AT THE OPTION OF THE BEARER, IN U.S. DOLLARS CALCULATED AS SET FORTH IN CONDITION 6 OF THE BONDS. SUCH OPTION TO RECEIVE DOLLARS IS IRREVOCABLE AND MAY BE MADE ONLY BY THE PRESENTATION AND SURRENDER OF SUCH BONDS, TOGETHER WITH A COMPLETED NOTICE OF EXERCISE OF DOLLAR OPTION, AT THE PRINCIPAL OFFICE OF ANY OF THE PAYING AGENTS NOT LATER THAN 20th FEBRUARY, 1985. INTEREST ON THE BONDS IS PAYABLE ONLY IN U.S. DOLLARS.

Payments will be made (i) in the case of any payment to be made in pounds sterling by a check drawn on, or by transfer to an account maintained by the payee with, a bank in London, subject in each case to any laws or regulations applicable thereto, and (ii) in the case of any payment to be made in U.S. dollars, at any agency outside New York City by a check drawn on a U.S. dollar account, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, subject in each case to any laws or regulations applicable thereto. Any such payment made by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding of 20% of the gross proceeds if payees not recognized as exempt recipients fail to provide the paying agent with an executed IRS Form W-8 in the case of non-U.S. persons or an executed IRS Form W-9 in the case of U.S. persons.

From and after 1st March, 1985 interest shall cease to accrue on the Bonds herein designated for redemption.

INVESTORS IN INDUSTRY INTERNATIONAL B.V.
By: MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, *Principal Paying Agent*

Dated: 28th January, 1985

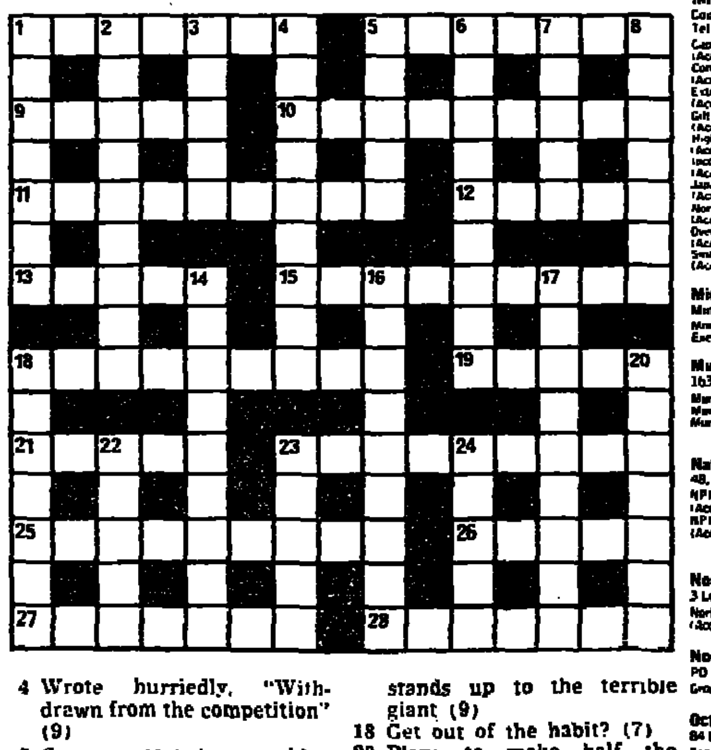
Under the Interest and Dividend Tax Compliance Act of 1983, we may be required to withhold 20% of any gross payments made within the United States to certain holders who fail to provide us with, and certify under penalties of perjury, a correct taxpayer identifying number (employer identification number or social security number, as appropriate) or an exemption certificate on or before the date the securities are presented for payment. Those holders who are required to provide their correct taxpayer identification number on Internal Revenue Service Form W-9 and who fail to do so may also be subject to a penalty of $50. Please therefore provide the appropriate certification when presenting your securities for payment.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

F.T. CROSSWORD PUZZLE No. 5,629



ACROSS

1 Types a letter to the girls (7)
5 Follows closely at this point, strangely sad about it (7)
9 Shock dad, bringing back a friend (5)
10 Blushing once the French entered with the fragrance (9)
11 The fish went off when killed the Spanish way (9)
12 Hill's coming back round, so get to bed (5)
13 Province actually existing at Minehead (5)
15 Perhaps hear Simon sing in unison (9)
18 United Nations act covering detectives is still not settled (9)
19 Cricketers are to be found in these undergarments (5)
21 Pulled together and tied (5)
23 Fish behind the tap for a beetle (9)
25 It takes a real idiot to sort out this article! (9)
26 There's two-thirds tax where Douglas is, that's an established principle (5)
27 Put outside, the children boiled (7)
28 Mark O'Connor brought *round the drawings* (7)

DOWN

1 War-horse often attached to a battery (7)
2 And that's what it stands for! (9)
3 Also juggled with about five, getting a round of applause (5)
4 Wrote hurriedly, "Withdrawn from the competition" (9)
5 Gave support to new idea but died shortly after (5)
6 Throws hair oil over us—very funny! (9)
7 Reagan has the same music (5)
8 Put "in case she switched heat on" (7)
14 Most China transport will keep you dry (9)
16 Around mid-July I'd cried about being laughed at (9)
17 Striving to be like one. Tim stands up to the terrible giant (9)
18 Get out of the habit? (7)
20 Plans to make half the school seem silly (7)
22 Excellent case for motorway which the priest may put on (5)
23 Infant scolded for going round lake (5)
24 Are involved with writing a large quantity (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

INSURANCE, OVERSEAS & MONEY FUNDS

Liberty Life Assurance Co Ltd
Station Rd, New Barnet. 01-440 8210
Fund Managers, Touche Remnant & Co.

Sel Sec A	26.5	28.0	+0.5
Blue Chip	23.6	24.9	+1.1
Fixed Yield	19.6	20.7	+1.1
Guaranteed Mny	16.0	16.9	+0.1
Managed	20.9	22.1	+0.3
International	28.8	30.4	+0.5
Property	17.1	18.1	
Pacific	22.6	23.8	+0.1
Equity	16.6	17.5	+0.3
Special Sits	25.3	26.7	+0.6
Int Currency	14.1	14.9	+0.1
Index Linked Secs	11.1	11.7	+0.2
American	22.8	24.0	+0.9

Life Assur. Co. of Pennsylvania
8, New Rd, Chatham, Kent Medway 812348

LACOP Units	14.30	15.02	

Lloyds Life Assurance
20, Clifton St, EC2A 4HX 01-920 0202

Multi Gwth Jan 6		£305.916		
Multi Gwth 'A' Jan 6	276.2	290.8		
Op B Prop Jan 10	262.2	276.0		
Op B Equity Jan 25	372.0	391.6	+4.6	
Op Hy Jan 24	264.3	278.3		
Op B Man Jan 24	345.4	363.6		
Op B Dep Jan 25	201.0	211.6		11.82
Op B Bond Jan 24	188.4	198.4		
Op B Inc Dist Jan 24	144.7	152.4		8.040
Op B Int Man Jan 24	214.7	226.1		
Op B US$ Jan 24	169.8	178.8		12.12
Pens B Pr Ac Jan 15	344.1	362.3		
Pens B Eq Ac Jan 15	1028.4	1082.6		
Pens B FI Ac Jan 15	383.5	403.7		
Pens B Mid Acc Jan 15	603.0	634.8		
Pens B Dp Acc Jan 15	320.6	337.5		
PensBGart Globe Jan 15	112.9	118.9		
Pens B Gart NA Jan 15	103.6	109.1		
PensBGartP Jan 15	122.8	129.5		

For Pensions Capital Units please ring extension 519.

Britannia Funds—Series A

Am Smlr Co's	137.3	144.6	+3.2
Am Spec Sits	163.8	172.5	+2.2
Commodity	83.1	87.5	-0.2
Extra Inc	117.4	123.6	-1.4
Far East	120.4	126.8	+1.3
Fi Secs	158.6	167.0	-0.8
Gold & Gen	70.6	74.4	-1.4
Inc Growth	160.1	168.6	-1.7

[illegible]

National Provident Institution
48, Gracechurch St, EC3P 3HH. 01-623 4200

Managed	199.5	210.1	+0.8
UK Equity	229.8	241.9	+1.8
Overseas Eq	207.3	218.3	-0.2
Americas	208.2	219.2	-1.7
Far East	182.2	191.8	-1.9
Property	112.3	118.3	
Fixed Int	158.5	166.7	+0.3
Indexed Gilt	106.2	111.8	
Deposit	114.0	120.1	

Pension Fund Prices

Man Initial	201.4	212.1	+0.3
Man Acc	224.2	236.0	+0.4
UK Eq. Initial	217.2	228.7	+0.8
UK Eq	238.6	251.2	+0.9
Overseas Eq Initial	228.8	240.9	-0.8
Overseas Eq	261.6	272.5	-0.9
American Initial	238.2	250.8	-0.6
American	262.8	276.7	-0.7
Far East Initial	234.5	246.9	-2.2
Far East	259.4	273.4	-2.1
Prop Initial	108.2	113.9	
Prop	119.3	125.6	
Fixed Int Initial	142.1	149.6	+0.3
Fixed Int	156.2	164.5	+0.5
Indexed Gilt Initial	99.4	104.7	-0.1
Indexed Gilt	109.8	115.6	
Deposit Initial	112.7	128.7	
Deposit	124.9	131.5	

NPI Pensions Management Ltd.

Managed Fund	536.4	550.2

Prices Jan 2. Next dealing February 1

New Zealand Insurance PLC
110/114, Baxter Avenue, Southend (0702) 344555

Kiwi key (Managed)	370.8	390.5	
UK Equity	169.8	178.7	-0.6
American	270.3	284.5	+3.5
Pacific	393.4	414.1	+1.9
Property	153.1	161.2	
Gilt	176.5	185.8	+0.4
High Inc. Equity	160.2	168.6	-0.7
High Inc. Fxd. Int	101.4	106.7	+0.7
Deposit	150.1	158.0	+0.1
Index-Linked Gilt	102.2	107.6	+0.1

Norwich Union Insurance Group
PO Box 4, Norwich NR1 3NG. 0603 22200

NUIG (Managed Funds) Ltd.

Managed Fund	520.9	539.3	+2.7
Equity Fund	974.7	1026.0	+7.6
Property Fund	265.9	279.9	+0.1

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)					
22 Aug 22 Feb	Treas. 15pc 1985	100⅛xd	16.1	14.97	12.57
22 Sep 22 Mar	Exch. 12pc Cnv. '85	99½	16.8	12.01	12.24
21 Nov 21 May	Treas 3pc 1985	97⅛	15.10	3.08	11.55
15Jan 15Jul	Treas 11½pc 1985	99⅝	10.12	11.51	11.70
3 Mar 3 Sep	Treas 8¾pcCnv '85	98¾xd	25.1	8.87	11.70
22 May 22 Nov	Exch. 12¼pc 1985	100¼	16.10	12.22	11.82
25 Aug 25 Feb	Exch. 11¾pc '86	100xd	27.1	11.75	11.81
11Oct 11Apr	Treas. 10pcCnv 1986	98	4.9	10.20	11.78
19 Nov 19 May	Treas 3pc 1986	93½	15.10	3.21	8.35
19 Nov 19 May	Exch. 10½pc Cv '86	98⅝	15.10	10.65	11.64
12Dec 12Jun	Treas 12pc 1986	100½	5.11	11.94	11.61
10 Jan 10 Jul	Treas 8¼pc 1984-86‡‡	96⅝	4.12	8.83	11.34
29 Apr 29 Oct	Exch. 14pc 1986	103⅝	24.9	13.48	11.51
21 May 21 Nov	Exch. 2½pc 1986	88⅞	15.10	2.81	9.44
22Jul 22Jan	Exch. 13¼pc 1987	103⅛	17.12	12.85	11.44
10 Aug 10 Feb	Treas 10¼pcCv '87	97¾xd	4.1	10.49	11.53
24Aug 24Feb	Exch 2½pc 1987	86⅝xd	18.1	2.89	9.83
6Oct 6Apr	Exch. 10½pc 1987	98⅛	3.9	10.70	11.46
1 Nov 1 May	Funding 6½pc '85-87‡‡	90⅝	25.9	7.17	11.31
12Dec 12Jne	Treas. 10pc 1987	97	5.11	10.31	11.46
14Jan 14Jly	Treas 3pc 1987	85½	10.12	3.51	9.78
3May 3Nov	Treas. 12pc 1987	101⅛	27.9	11.87	11.51
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	91⅞	20.12	8.44	11.01
10Nov 10Mar	Exch 10½pc '88	97	4.10	10.82	11.66
14Dec 14Jne	Treas 9¾pc Cv '88	95	7.11	10.26	11.59
1Jan 1Jul	Transport 3pc '78-88	81¼	26.11	3.69	9.55
25 Apr 25 Oct	Treas. 9½pc '88	93½	18.9	10.16	11.67
22 Aug 22 Feb	Treas 11½pc 1989	99½xd	16.1	11.56	11.67
18 Oct 18 Apr	Treas 9½pc Cnv '89	93	11.9	10.22	11.63
14Dec 14Jun	Treas 10½pc 1989	96¼	7.11	10.91	11.59
1Feb 1Aug	Exch 10pc 1989	94⅜xd	27.12	10.60	11.64
29 Mar 29 Sep	Exch 11pc 1989	97⅜	—	11.30	11.71
15 Apr 15 Oct	Treas 5pc 1986-89	80¾	10.9	6.19	10.23
15 Jul 15 Jan	Treas 13pc 1990‡‡	105⅜	10.12	12.34	11.54
Five to Fifteen Years					
22 Sep 22 Mar	Exch. 12½pc 1990	107⅛	16.8	12.14	11.70
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	89⅜	8.11	9.31	11.11
25 Apr 25 Oct	Treas. 10pcCv 1990	95⅛	18.9	10.81	11.81
10Ja 10Jan	Treas 11¾pc 1991	100¼	4.12	11.79	11.82
5Oct 5Apr	Funding 5¾pc '87-91‡‡	81¼	3.9	7.19	11.20
25Apr 25Oct	Exch. 11pc 1991	99½	18.9	11.38	11.72
22Jly 22Jan	Treas 12¾pc 1992‡‡	104¼	17.12	12.25	11.88
21Aug 21Feb	Treas 10pc 1992	91¼xd	15.1	10.88	11.73
7May 7Nov	Treas 10½pc Cv 1992‡‡	98⅝	—	11.15	11.69
25Feb 25Aug	Exch. 12¼pc '92	100⅞xd	21.1	12.03	11.90
22Mar 22Sep	Exch 13½pc 1992	111⅜	16.8	12.60	12.03
14Jan 14Jul	Treas 12½pc 1993‡‡	103¼	10.12	12.10	11.88
15Mar 15Sep	Funding 6pc 1993‡‡	77¼	9.8	7.94	10.35
23May 23Nov	Treas 13¾pc 1993‡‡	112¼	17.10	12.53	11.96
1 Sept 1 Mar	Treas 14½pc 1994‡‡	114xd	23.1	12.59	11.78
27Oct 27Apr	Exch 13½pc 1994	111⅜	20.9	12.48	11.99
22Feb 22Aug	Exch. 12½pc 1994	102½xd	16.1	12.09	11.92
17May 17Nov	Treas 9pc 1994‡‡	88	11.10	10.44	11.35
25Jul 25Jan	Treas 12pc 1995	100¼	19.12	11.92	11.88
1Nov 1May	Gas 3pc '90-95	63½	25.9	4.78	8.51
21Jan 21Jul	Exch. 10¼pc 1995	91⅛	17.12	11.24	11.74
15May 15Nov	Treas 12¾pc 1995‡‡	108½	9.10	12.04	11.75
22Jly 22Jan	Treas. 14pc '96	112½	17.12	12.47	11.96
15Sep 15Mar	Treas 9pc 1992-96‡‡	85⅝	9.8	10.52	11.32
3Nov 3May	Treas 15¼pc 1996‡‡	123⅞	27.9	12.68	11.92
15Nov 15May	Exch 13¼pc 1996‡‡	112¼	9.10	12.09	11.70
1Apr 1Oct	Redemption 3pc 1986-96	69½	28.8	4.38	7.03
22Jul 22Jan	Treas 13¼pc 1997‡‡	110¼	17.12	12.06	11.69
21Aug 21Feb	Exch 10½pc 1997	92½xd	15.1	11.27	11.57
1Mar 1Sep	Treas 8¾pc 1997‡‡	82¼xd	23.1	10.54	11.31
27Apr 27Oct	Exch. 15pc 1997	123¼	20.9	12.51	11.94
19Jly 19Jan	Exch. 9¾pc 1998	89⅛	13.12	10.97	11.45
19 July —	Exch. 9¾pc 1998 'A'	90	—	10.98	11.40
1Nov 1May	Treas 6¾pc 1995-98‡‡	72¼	25.9	9.54	10.99
30Mar 30Sep	Treas. 15½pc '98‡‡	130	24.8	12.41	11.78
20May 20Nov	Exch. 12pc 1998	105¼	15.10	11.65	11.55
15Jul 15Jan	Treas 9½pc 1999‡‡	88⅛	10.12	10.79	11.21
26Sep 26Mar	Exch. 12¼pc 1999	109⅛	20.8	11.64	11.49
19Nov 19May	Treas. 10½pc 1999	96¼	15.10	11.14	11.32
22May 22Nov	Convers'n 10¼pc 1999	94¼	16.10	11.10	11.28
Over Fifteen Years					
14Jan 14Jul	Treas. 13pc 2000	111⅛	10.12	11.70	11.45
22Nov 22May	Treas. 14pc '98-01	117⅛	16.10	12.17	11.73
22Jul 22Jan	Exch. 12pc '99-02	103⅜	17.12	11.60	11.50
11Apr 11Oct	Conv. 10pc 2002	95¼	4.9	10.82	10.99
25Jan 25Jul	Treas. 13¾pc 2000-03	116½	19.12	11.81	11.47
19Sep 19Mar	Treas. 11½pc 2001-04	107	13.8	11.18	11.11
14Jan 14Jul	Funding 3½pc '99-04	47¼	10.12	7.45	9.55
— Sept. 20	Exch 10½pc 2005(£40pd)	39⅝	—	10.77	10.81
21May 21Nov	Treas. 12½pc 2003-05	113⅛	15.10	11.28	11.11
5Apr 5Oct	Treas. 8pc 2002-06‡‡	80⅞	3.9	10.21	10.55
22Jly 22Jan	Treas. 11¾pc 2003-07	105¼	17.12	11.18	11.09
26Sep 26Mar	Treas. 13½pc '04-08	123¼	20.8	11.38	11.12
10Mar 10Sep	Treas. 5½pc 2008-12‡‡	59⅞	6.8	9.52	10.04
26Jly 26Jan	Treas. 7¾pc 2012-15‡‡	76¼xd	20.12	10.10	10.27
12Jun 12Dec	Exch. 12pc '13-'17	114⅛	5.11	10.66	10.59
Undated					
1Feb 1Aug	Consols 4pc	37⅞xd	27.12	10.55	—
1Jun 1Dec	War Loan 3½pc‡‡	34¼	25.10	10.39	—
1Apr 1Oct	Conv. 3½pc '61 Aft.	42⅛	28.8	8.49	—
5Apr 5Oct	Treas. 3pc '66 Aft.	29¼	3.9	10.60	—
5Ja Ap Jly O	Consols 2½pc	24⅛	3.12	10.43	—
1Apr 1Oct	Treas. 2½pc	24½	28.8	10.55	—
Index-Linked	(b)			(1)	(2)
30Mar 30Sep	Treas. 2pc '88	(297.1) 107	29.8	4.06	5.10

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BEERS, WINES—Cont.

BUILDING, TIMBER, ROADS

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

HOTELS—Continued

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—Continued

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✚ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a [illegible]

REGIONAL & IRISH STOCKS

[illegible]

OPTIONS—3-month call rates

[illegible]

Courtaulds	11	Plessey	20	Charterhall	6
Debenhams	19	Polly Peck	25	Premier	6
Distillers	24	Racal Elect	24	Shell	55
Dunlop	5	RHM	10	Tricentrol	22
FNFC	7	Rank Org Ord.	24	Ultramar	22
Gen Accident	42	Reed Intnl	50	**Mines**	
Gen Electric	20	Sears	7	Charter Cons	21
Glaxo	90	TI	18	Cons Gold	42
Grand Met.	26	Tesco	8	Lonrho	14
GUS 'A'	55	Thorn EMI	42	Rio T Zinc	60
Guardian	58	Trust Houses	12		

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 18

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Pound continues to suffer

BY COLIN MILLHAM

The spotlight moved backwards and forwards between sterling and the dollar on the foreign exchanges last week. The pound would have been only too pleased to remain in the wings, but the market still considers it a rewarding target for attention at present.

Much was said and written about the Group of Five meeting in Washington and an apparent agreement by the world's leading industrial nations about foreign exchange intervention, but as far as sterling was concerned the market was more concerned about the underlying weakness of world oil prices.

The Bank of England appeared more ready to give support to the pound, and by the end of the week there were strong hopes of an early end to the coal strike, but oil fears ahead of this week's Opec meeting meant sterling finished on Friday equal to its record closing low of $1.1105, and also equal to its all-time exchange rate index low of 70.6. Afterwards in New York the trend continued, with the pound threatening the $1.10 level.

The December UK trade deficit of £207m and the current account surplus of £193m, announced Friday afternoon, had a mixed reception, but was perhaps, a little better than many estimates and caused little reaction.

Fear of concerted action by the central banks, following the Group of Five meeting, overhung the market al week. This tended to keep the dolar within a narrow trading range of DM 3.16 to DM 3.18, with any break outside this general level fairly shortlived as the central banks pushed the rate back down from a peak of DM 3.1845 or the market pushed it up from a low of DM 3.1490.

There was some concern that if the dolar remained very long under DM 3.16 this might spark a general decline, but any ideas proved short lived and it seems the central banks will have to put in more effort if they are to prevent another steady rise by the U.S. currency.

STERLING EXCHANGE RATE INDEX (Bank of England)

	Jan 25	Previous
8.30 am	70.8	70.8
9.00 am	70.7	70.7
10.00 am	70.7	70.7
11.00 am	70.7	70.6
Noon	70.8	70.6
1.00 pm	70.8	70.6
2.00 pm	70.7	70.7
3.00 pm	70.7	70.6
4.00 pm	70.6	70.7

£ in New York

	January 25	Prev. close
£ Spot	$1.1065-1.1075	$1.1180 1.1177
1 month	0.41-0.38 pm	0.40 0.36pm
3 months	1.11-1.08 pm	1.06-1.03pm
12 months	2.80-2.75 pm	2.47-2.37pm

Forward premiums and discounts apply to the U.S. dollar.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.1105	1.1067	1.0998	1.0925	1.0870
D-Mark	3.52	3.5008	3.4657	3.4209	3.3424
French Franc	10.7550	10.7534	10 7512	10.7503	10.7512
Swiss Franc	2.9575	2.9407	2.9083	2.8637	2.7812
Japanese Yen	282.00	280.58	277.93	274.38	268.32

POUND SPOT—FORWARD AGAINST POUND

Jan 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U S.	1.1085-1.1205	1.1100-1.1110	0.40-0.37c pm	4.16	1.10-1.05pm	3.87
Canada	1.4735-1.4840	1 4740-1.4750	0 36-0.27c pm	2.56	1.03-0.90 pm	2.62
Nethlnd.	3.97¼-4.00¼	3.97¼-3.98¼	2¼-2c pm	6.41	6¼-6pm	6 16
Belgium	70.30-70 79	70 30-70.40	14-9c pm	1.96	34-25pm	1.68
Denmark	12.54-12 63	12.54-12.55	¾ore pm-⅛ dis	−0.18	1¼pm-par	0.09
Ireland	1.1331-1.1383	1.1344-1.1354	0.18-0.32p dis	−2.54	0.49-0.79dis	−2.26
W. Ger.	3.51½-3.54	3.51½-3.52½	2-1⅞pf pm	6.60	5½-5¼pm	6.18
Portugal	191 40-193.79	191.45-192.75	180-470c dis	−20 30	540-1390d	−20.09
Spain	194.58-195.92	194.60-195.00	10-25c dis	−1.08	30-60dis	−0.92
Italy	2,165½-2,181¾	2,167-2,168	3½-6 lire dis	−2.63	12-16dis	−2.58
Norway	10.15¼-10 25½	10.15¾-10 16¾	¼ore pm-⅛ dis	−0.37	½pm-¼dis	−0.05
France	10.75-10 82¾	10.75-10.76	2-1¼c pm	1.95	4½-3¼pm	1.42
Sweden	10.03½-10.12	10 03½-10.04½	⅝-1¼ore dis	−0.40	2⅞-3¼dis	−1.17
Japan	281¼-284½	281½-282½	1.50-1.40y pm	6.17	4 05-3.95pm	5 67
Austria	24 70-24.86	24.71-24.75	12½-10⅞gro pm	5.58	33-29½pm	5.07
Switz.	2.95¼-2.97½	2.95¾-2.96¾	1¾-1¾c pm	6 85	5-4½pm	6.59

Belgian rate is for convertible francs. Financial franc 70.60-70.70. Six-month forward dollar 1.83-1.78c pm, 12-month 2.60-2.45c pm.

OTHER CURRENCIES

Jan. 25	£	$		£ Note Rates
Argentina Peso	234.45-234.90	210.37-210.57	Austria	24.70-25.00
Australia Dollar	1.3675 1.3695	1.2255-1.2260	Belgium	70.70-71.60
Brazil Cruzeiro	3,834-3,858	3,441-3,458	Denmark	12.55-12.65
Finland Markka	7.3770 7.4090	6.6250-6.6270	France	10.76-10.90
Greek Drachma	143.28 146.18	128.16-130.74	Germany	3.52-3.56
HongKong Dollar	8.6790 8.6905	7.7930-7.7960	Italy	2165 2195
Iran Rial	106.05*	94.20*	Japan	282 287
KuwaitDinarKD	0.3415-0.3420	0.30580-0.30590	Netherlands	3.97-4.01
Luxembourg Fr.	70.30 70.40	63.30 63.40	Norway	10.19-10.29
Malaysia Dollar	2.7650-2.7695	2.4825-2.4845	Portugal	189-203
New Zealand Dlr.	2.3765-2.3715	2.1275 2.1300	Spain	192-202
Saudi Arab Riyal	3.9990 4.0040	3.5805 3.5815	Sweden	10.05 10.15
Singapore Dollar	[illegible]	[illegible]	Switzerland	[illegible]
Sth African Rand	[illegible]	[illegible]	United States	[illegible]
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	[illegible]

* Selling rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu January 25	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	44.4035	−1.11	−0.06	±1.5428
Danish Krone	8.14104	7.92317	−2.68	−1.63	±1.6421
German D-Mark	2.24184	2.21982	−0.98	+0.07	±1.1463
French Franc	6.87456	6.79050	−1.22	−0.17	±1.3659
Dutch Guilder	2.52595	2.50912	−0.67	+0.38	±1.5165
Irish Punt	0.72569	0.713449	−1.69	−0.64	±1.6671
Italian Lira	1403.49	1369.16	−2.45	−2.14	±4.0511

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

BANK OF ENGLAND TREASURY BILL TENDER

	Jan. 25	Jan. 18		Jan. 25	Jan. 18
Bills on offer	£100m	£100m	Top Accepted rate of discount	11.5516%	11.4313%
Total of applications	£325.4m	£425m	Average rate of discount	11.5234%	10.4022%
Total allocated	£100m	£100m	Average yield	11.86%	11.74%
Minimum accepted bid	£97.12	£97.15	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	15%	35%			

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Jan 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.1085-1.1205	1.1100-1.1110	0.40-0.37c pm	4.16	1.10-1.05pm	3.87
Ireland†	0.9815-0.9865	0 9815-0.9825	0.57-0.52c pm	6.65	1.52-1.46pm	6.02
Canada	1.3233-1.3254	1.3249-1.3254	0.16-0.19c dis	−1.59	0.35-0.44dis	−1.25
Nethlnd.	3.5645-3.5815	3.5780-3.5790	0.69-0.66c pm	2.27	2.04-2.01pm	2.27
Belgium	63.10-63.40	63.30-63.40	12-13c dis	−2.27	34-36dis	−2.21
Denmark	11.25¼-11.30¾	11.29¾-11.30¼	3-3½ore dis	−3.46	8½-8¾dis	−3.02
W. Ger.	3.1515-3.1680	3.1655-3.1665	0.67-0.62pf pm	2.45	1.90-1.85pm	2.37
Portugal	172¼-173	172½-173	225-475c dis	−24.28	650-1400d	−23.77
Spain	174.45-175.20	174.70-174.80	70-78c dis	−5.08	200-215dis	−4.74
Italy	1,944½-1,951	1,949½-1,950½	10½-11 lire dis	−6.62	31-32dis	−6 46
Norway	9.12½-9.17	9.15¾-9.16¾	2¾-3¼ore dis	−3.93	8½-9dis	−3.82
France	9.64¼-9.67	9.68¼-9.68¾	1.75-1.85c dis	−2.22	5.55-5.85dis	−2.36
Sweden	9 01¾-9.04½	9.03¾-9.04¼	3¾-4¼ore dis	−5.32	10½-11¼dis	−4 93
Japan	253.50-253.95	253.85-253.95	0 42-0.38y pm	1.89	1.23-1.18pm	1 90
Austria	22.14¼-22.24¾	22.16-22.18	3.00-2.40gro pm	1.46	8-6pm	1.26
Switz.	2.6470-2.6640	2.6605-2.6615	0.60-0.55c pm	2.60	1.89-1.82pm	2.78

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 63.55-63 65

CURRENCY MOVEMENTS

Jan. 25	Bank of England Index	Morgan Guaranty Changes %
Sterling	70.6	−20.3
U.S. dollar	148.1	+32.2
Canadian dollar	90.8	−3.1
Austrian schilling	110.4	+5.8
Belgian franc	88.9	−9.9
Danish Kroner	76.9	−4.5
Deutsche mark	120.5	+8.4
Swiss franc	136.3	+7.6
Guilder	110.1	+3.1
French franc	63.7	−16.1
Lira	46.6	−13.7
Yen	154.5	+10.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

Jan. 25	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.871350	0.628549
U.S. $	8	0.975662	0.705032
Canadian $	9.66	[illegible]	0.930815
Austria Sch.	4½	21.6677	15.5933
Belgian Fr.	11	61.5716	44.4035
Danish Kr.	7	10.9918	7.92317
D mark	4½	3.08299	2.21982
Guilder	5	3.48506	2.50912
French Fr.	9½	9.42782	6.79050
Lira	15½	1902.52	1369.16
Yen	5	247.525	178.559
Norway Kr.	8	8.92243	6.43450
Spain Pta.	—	170.652	122.890
Swedish Kr.	8	8.80730	6.34662
Swiss Fr.	4	2.59116	1.86529
Greek Drch.	20½	126.134	90.7866
Irish Punt	12¾	N/A	0.713449

*CS/SDR rate for January 24: 1.29020

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%; THREE-MONTH STERLING £500,000 points of 100%; 20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%; STERLING £25,000 $ per £; DEUTSCHE MARKS DM 125,000 $ per DM; SWISS FRANCS SwFr 125,000 $ per SwFr; JAPANESE YEN Y12.5m $ per Y100; FT-SE 100 INDEX £25 per full index point — [illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%; U.S. TREASURY BILLS (IMM) $1m points of 100%; CERT. DEPOSIT (IMM) $1m points of 100%; THREE-MONTH EURODOLLAR (IMM) $1m points of 100%; STERLING (IMM) Se per £; GNMA (CBT) 8% $100,000 32nds of 100% — [illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

Jan. 25	Pound St'rling	U.S. Dollar	Deutsche m'k	J'panese Yen	FrenchFranc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.111	3.520	282.0	10.76	2.958	3.978	2168.	1.475	70.35
U.S. Dollar	0.900	1.	3.166	253.9	9.685	2.661	3.579	1950.	1.328	63.35
Deutschem'rk	0.284	0.316	1.	80.11	3.055	0.840	1.130	615.8	0.419	19.99
Japanese Yen 1,000	3.546	3.938	12.48	1000.	38.14	10.49	14.10	7686.	5.229	249.5
French Franc 10	0.930	1.033	3.273	262.2	10.	2.750	3.698	2015.	1.371	65.41
Swiss Franc	0.551	0.375	1.190	95.35	3.637	1.	1.345	732.9	0.499	23.79
Dutch Guilder	0.251	0.279	0.885	70.90	2.704	0.744	1.	544.9	0.371	17.69
Italian Lira 1,000	0.461	0.512	1.624	130.1	4.962	1.364	1.835	1000.	0.680	32.46
Canadian Dollar	0.678	0.753	2.387	191.3	7.294	2.006	2.698	1470	1.	47.71
Belgian Franc 100	1.421	1.579	5.004	400.9	15.29	4.204	5.654	3081.	2.096	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

Jan. 25	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short term	11¼ 12	8¼-8⅝	9 9⅛	5⅝ 5⅞	⅝ 1	5⅞ 5⅝	10¼-10⅜	14-16	10-10½	10⅝-10⅝	6⅛ 6¼	12¼-12¾
7 days' notice	12-12¼	8⅛-8¼	9-9⅛	5⅝-5⅞	12¾ 13	5½-5⅝	10¼-10⅜	14 15	10¼-10¾	10½-10¾	6⅛ 6⅜	12⅞-13⅛
Month	12⅜ 12⅝	8⅛ 8⅜	9⅝ 9⅞	5⅞ 5⅞	5⅜ 5½	5⅝ 5¾	10⅞-10⅞	14⅝-15⅛	10½ 11	10⅝ 10⅞	6¼-6⅜	11⅞-12⅜
Three months	12¼ 12⅝	8¼ 8⅜	9⅞-9⅞	5⅞ 6	5¼-5⅜	5¾-5⅞	10⅞-10⅞	14¾-15¼	10½-11	10⅝ 10⅞	6⅜-6⅞	11½-12
Six months	11⅞ 12⅛	8⅞ 8⅞	9⅞ 9⅞	6-6⅛	5¼-5⅜	5⅞-6⅛	11-11⅛	14⅝-15	10½-11	10⅝ 10⅞	6¼-6⅞	11¼-11¾
One year	11⅞ 11½	9⅛ 9⅞	9⅞-9⅞	6⅛-6⅛	5⅞-6⅞	6⅛-6⅞	11¼-11⅜	14⅞ 15¼	10½-11	10⅝ 10⅞	6¼-6⅞	11¼-11¾

Asian $ (closing rates in Singapore): Short-term 8³⁄₁₆-8⁵⁄₁₆ per cent: seven days 8¼-8⅜ per cent; one month 8³⁄₁₆-8⁵⁄₁₆ per cent: three months 8³⁄₁₆-8⁵⁄₁₆ per cent: six months 8½-8⅝ per cent; one year 9⅛-9¼ per cent. Long-term Eurodollars: two years 10¼-10½ per cent; three years 10¾-11 per cent; four years 11¼-11½ per cent; five years 11⅜-11⅝ per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

MONEY MARKETS

A nervous look at sterling

A rather eventful week ended with the London money market nervous, but not showing any sign of panic. The weakness of the pound, which again finished at a record closing low, led to speculation about another rise nl clearing bank base rates. It was not too clear how much higher rates would have to go before the market was satisfied, but it was equally unlikely that an increase of ½ per cent to 12½ per cent in base rates would have been enough to make any major difference to sterling.

Market rates were around a level indicating base rates of 12½ per cent on Thursday morning, but then eased back as the pound stabilised, and by the close on Friday there was little continuing air of nervousness, as sterling suffered another late reversal.

Sterling still looks very vulnerable, in spite of the recent rise in interest rates, and hopes that the miners' strike is moving towards a satisfactory conclusion, as far as the financial markets are concerned.

Both cash and futures markets last week in London were almost entirely preoccupied with watching the pound's jittery moves, particularly against the dollar, but also in terms of the D-mark and the members of the European Monetary System.

The general mood was not helped by suggestions that foreign banks were borrowing Eurosterling in order to make further sales of the pound.

Rumours of a cut in the Opec benchmark price for crude oil proved at least premature, but added to the pressures on sterling, while Sheikh Yamani, the Saudi Arabian oil minister, said the aim of this week's Opec meeting will be to keep the benchmark unchanged.

In the circumstances the discount houses were keen sellers of paper, and will not be too concerned at present at the apparent shortage of bills in the market, which tended to keep overnight money rather firm. A large shortage of credit on Monday resulted in part of the help being provided through short term repurchase agreements, but during the rest of the week the houses generally found nearly enough bills to take out the shortages through outright purchases, and were only too happy to do so.

UK clearing banks' base lending rate 12 per cent since January 14.

MONEY RATES

Jan. 25	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	5.50 5.55	10⅜	1⅝ 1⅝	5⅝ 5⅞	6.34375	16⅝-16	7.60	14¾-15
One month	5.70-5.85	10⅞ 10⅞	5⅜-5½	5⅞ 5⅞	6.28125	16⅝-16	10⅞-10⅞	14¾ 15
Two months	5.65-5.80	10⅞ 10⅞	—	—	—	—	—	14⅝-14⅞
Three months	5.75 5.90	10⅞-10⅞	5⅜ 5⅝	5⅞ 6	6.34375	16⅜-16⅛	10⅞-10⅞	14⅝-14⅞
Six months	5.85 6.00	10⅞-10⅞	—	5⅞-6	—	—	—	14⅛-14⅛
Lombard	6	—	—	—	—	—	—	—
Intervention	—	10⅞	—	5¼	—	—	—	—

LONDON MONEY RATES

Discount Houses Deposit and Bill Rates

Jan. 25 1985	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	10½-16	11¾-12	11⅞-12¼	10¼-11⅛	—	—	—	—	—
2 days notice	—	—	12 -12⅛	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	11⅞ 12⅛	12⅛-12⅛	12⅛-12⅛	11¾-12	—	—	—	—	—
One month	12¼-12⅛	12⅜	12⅛	12⅛	12	11⅞	—	11⅞	11⅞	12⅜
Two months	12⅞ 12⅞	12⅞	12⅛	12⅛	11⅞	11⅞	—	11⅞	11⅞	12⅜
Three months	12⅞ 12⅞	12⅞	12⅛	12⅛	11⅞	11⅞	—	11⅞	11⅞	12⅜
Six months	11⅞ 11¾	11½	—	—	—	—	—	—	—	—
Nine months	11⅞-11⅞	11¾	—	—	—	—	—	—	—	—
One year	11¾-11⅝	11¾	11⅛	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	13 12⅝	—	12⅝	8.05-8.0	7⅞-8⅛	9⅝ 9¾
Two months	12⅞ 12½	—	12⅝	8.05 8.15	7⅞-8⅛	9⅝ 9¾
Three months	12⅞ 12½	—	12⅛	8.1-8.2	8⅛-8⅜	9⅝ 9¾
Six months	12⅛ 11¾	—	12⅛	8.4-8.5	8⅛-8⅜	9⅝ 9¾
Nine months	12⅛ 12	—	11⅞	8.7-8.8	—	—
One year	12⅛ 11¾	—	11¾	9.15 9.25	8⅞-9⅛	9⅝ 9¾
Two years	—	11⅞	—	—	—	—
Three years	—	11⅞	—	—	—	—
Four years	—	11⅞	—	—	—	—
Five years	—	11⅞	—	—	—	—

ECGD Fixed Rate Export Finance IV: Average Rate of interest period December 1984 to January 1 1985 (inclusive): 9.913 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 10 per cent from January 1 1985. London and Scottish Clearing Bank Rates for lending 12 per cent. London Deposit Rates for sums at seven days' notice 9 per cent. Treasury Bills: Average tender rates of discount 11.5234 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 11⅞ per cent; one-three months 11⅞ per cent; three-six months 11⅞ per cent; six-nine months 11⅞ per cent; nine-12 months 11⅞ per cent. Under £100,000 11 per cent from January 15. Deposits held under Series 6 10 per cent. The rate for all deposits withdrawn for cash 8 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. January 25) 3 months U.S. dollars	
bid 8 5.16	offer 8 5/16
6 months U.S. dollars	
bid 8 1.2	offer 8 5/8

The fixing rates are the arithmetic means, rounded to the nearest one sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4 pm)

Prime rate	10½
Broker loan rate	9-10¼
Fed funds	8¼
Fed funds at intervention	8¼
Treasury Bills	
One month	7.45
Two month	7.55
Three month	7.61
Six month	7.87
One year	8.18
Treasury Bonds	
Two year	100⅞
Three year	100⅞
Four year	100⅞
Five year	101⅛
Seven year	103⅛
10 year	103⅛
30 year	104⅞

FINANCIAL TIMES SURVEY

JAPAN

BANKING, FINANCE AND INVESTMENT

Liberalisation of controls is opening new opportunities for foreign and Japanese institutions. But some protective barriers remain intact.

Changes whet the appetite

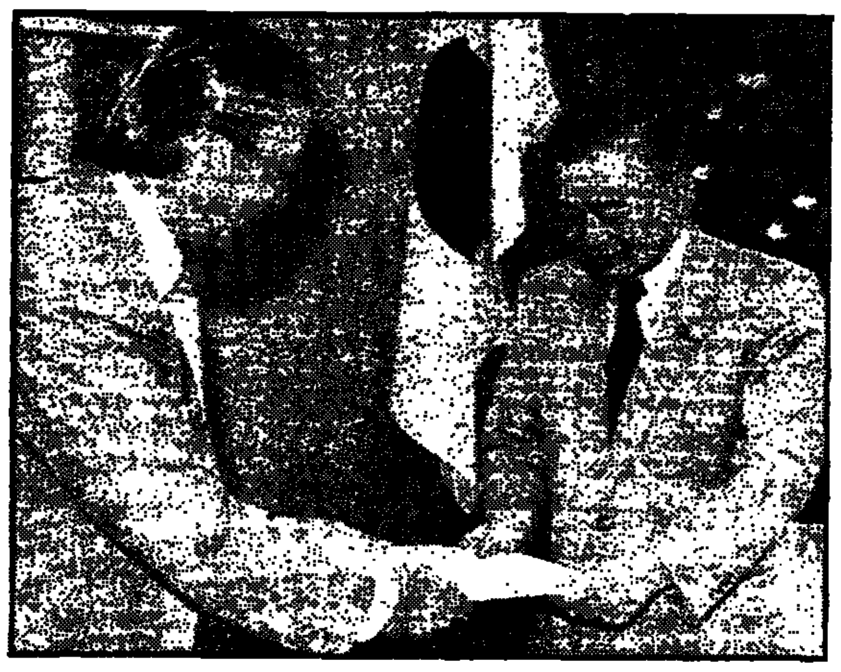
By Jurek Martin

❛There is no reason why we should not make a reasonable profit. Even if we don't, the importance of Japan will increase and everything we are doing and thinking of doing in Japan has external aspects.❜

Lord Roll of Ipsden, S. G. Warburg chairman

❛It comes down to whether we can afford not to be here — and we can't.❜

Mr Paul Sauvary, Schroder Banking Group, Tokyo



Computers in the new Tokyo Stock Exchange (left) to be opened in May will transform market trading. Financial markets are also adjusting, as strict controls are loosened. A Japan-U.S. study of liberalisation was received by Mr Noboru Takeshita, the Finance Minister, from his deputy, Mr Tomomitsu Oba, last year

IT IS impossible to keep an accurate count of foreign financial concerns in Tokyo these days. Some banks have been there since the Meiji Restoration in the 19th century and a few securities and investment houses for 20 years — in some instances longer. But the increasing number of practitioners in the city reflects a changing mood.

Tokyo is on the international financial map in a way it never was before.

The Japanese financial system has not been transformed overnight. Tokyo may be joining London and New York as one of the main pillars of international market-making, but its resemblance to both the City of London and Wall Street is still approximate.

For all the thousands of words and hours of intergovernmental effort devoted to liberalisation, it is worth bearing in mind what Japan has not done.

It is still the authorities, not market forces, that set most, if not all interest rates. The Government still determines the competitive rules by which the financial game is played, for example in concentrating more on protecting the weak than in promoting the energies of the strong.

The financial system is still marked by guidelines determining which institution may engage in which activity. There are still many areas which foreigners may not or cannot enter, including membership of the Tokyo Stock Exchange.

There is minimal trading in futures, a little in commodities and no offshore facility.

Above all, the bureaucratic hand remains powerful, be it in deciding the terms under which a foreign institution may do business in Japan, or in the number of automated tellers a bank may operate and the hours it may open to the public.

There have been some changes, however, and these have been enough to whet the appetite of the internationally versed foreign financial institutions and their more competitive and innovative Japanese counterparts. The articles in this survey will examine the changes that have taken place and their consequences in greater detail.

External pressure — principolly from the U.S., but perhaps more effecitvely in some fields, from he UK — has been a factor in bringing about changes. But it could not have been as successful if some internal Japanese will for change had not existed. The pace of change may have been influenced from outside but its direction was in place before the U.S. took up lobbying less than 18 months ago.

The starting point was probably the emergence 10 years ago of a real secondary market in government bonds in which rates were not fixed by the authorities. This made reforms possible in later years, including the abolition of foreign exchange controls in 1980.

The national need to deploy capital more effecively far outstripped services the system had to offer. Japan is now the world's largest exporter of capital, more than $50bn net in the curernt financial year.

Its corporations, supplanted by the Government as the chief raiser of domestic capital, have grown cash-rich and have preferred to invest more overseas.

The Japanese themselves, who as a population are ageing faster than any comparable industrialised nation, have become more interested in maximising returns on retirement investment funds.

Japan's economic success and maturity cannot be discounted. At one level, it illustrated the paucity of consumer finance vehicles in a country outgrowing simple cash transactions. It demanded more instruments for the foreign funds attracted to Japan. Japanese financial institutions, restricted domestically, ventured overseas and found that though the risks might be higher, returns were greater.

Even the government, saddled with a debt in excess of $500bn, began to see the refinancing charms of greater flexiblity.

All these factors combined to make Japan more receptive when the U.S. came to realise that there was more to its nonstrategic relationship with Japan than trade in cars and steel.

But that willingness to change was limited — and still is. The catalogue of things Japan has not done, in the face of often intense pressure, reflects the strong prudential responsibilities imbued into its officialdom, above all in the Ministry of Finance and the Bank of Japan.

The one thing which could slow the pace of liberalisation would be the collapse of a substantial domestic financial institution.

The authorities may be prepared to nudge weaker brethren into mergers and even, as in the case of trust banking, collaboration with more expert foreign institutions. But a sizeable financial failure — which has not taken place in post-war Japan — would be cathartic. This means that some of the protective bariers are not due for early dismantling.

Commitment

For foreign institutions and the more competitive and innovative Japanese banks and brokerage houses, however, there is now room to breathe and an environment more conducive to business. Above all, there are markets.

Foreign banks will get at least a slice of the $60bn pension fund pie. Even a measured growth in the internationalisation of the yen, still much less widely used than the Deutsche Mark, means more underwriting and managing opportunities in Euroyen issues.

Acquiring full branch status means a greater commitment to, and presumably knowledge of, the Japanese equity markets.

In the broadest sense, however, it means that foreign institutions have a better crack at one ofthe universally agreed secrets of doing business in Japan, be it in bonds or widgets. This is the establishment of deep relations with the Japanese holders of capital, who have preferred to conduct most business through Japanese concerns.

The foreigners will not supplant their Japanese rivals overnight, but in a country with national savings of the magnitude of Japan's the pot is large. Which is why, as Lord Roll and Mr Sauvary noted, Tokyo is the place to be.

CONTENTS

Liberalisation breaks into pell-mell pace

Foreign Pressure

JUREK MARTIN

THE LIBERALISATION of the Japanese financial system is not exactly premature. This is a country which dislikes experimentation for the sake of it.

It is reasonable to conclude that liberalisation would not have taken place if the Japanese had not wanted it. If there had not been domestic supporters of market forces, the regulated financial system that had been a feature of post-war Japan would not have been partly breached, as it has today. This was particularly true in the late 1970s, when Japan began to loosen the regulatory reins.

But that does not explain why Japan has proceeded in the last year at a pell-mell pace by its standards — if not international ones.

The national bureaucracy in this instance the Ministry of Finance and the Bank of Japan — are still not predisposed to leaps in the dark.

The private sector financial establishment, while keen to break new ground, has stopped short of throwing its own baby out with the bath water. The securities houses want to do business reserved until now for the bank—and vice versa—but not to the point of sacrificing their own turf. And for either to cede their respective work to the foreigner is not the Japanese way of doing things.

Effective

The sped, if not all the component parts of liberalisation, may seem the product of external influence. But the most effective instruments of pressure from the outside have been more from governments than from the private sector.

This does not mean that non-Japanese financial institutions have been passive; merely that governments have been more effective. Japan has recognised this in pressing its cause oversea, for it is the Ministry of Finance, not Nomura Securitie or the other "big four" Japanese brokers which has taken up the task of lobbying the Bank of England for the right of Japanese brokerage houses to take deposits in the UK.

The deference of the foreign private sector, even after national governments had belatedly entered the fray, is understandable. Most, if not all, overseas institutions were confronted with the difficulty of compromising their presence and standing in Japan, profitable or not, by demanding reform. As a result, their complaints tended to be more against overweening bureaucratic interference in existing business rather than against exclusion from business they would like to do.

This was perhaps more true of commercial banks than securities and merchant banking institutions, who had greater freedom but who were still *disinclined to rock the boat* that shipped profits home.

Into this vacuum the U.S. Treasury strode 18 months ago, with an impact which cannot be ignored. Observers of the Japanese financial system are convinced that the Treasury had little idea what it was doing.

The tendency for Mr Beryl Sprinkel, the Under-secretary for Monetary Affairs (and in one glittering display in Tokyo Mr Donald Regan the former Secretary) was to demand that Japan become like the U.S. overnight, bowing to the free market.

But the Treasury learned fast. It learned above all that it had touched a raw nerve in Japan by focussing on the financial system, for it was in this arcane world that Japan sensed it was vulnerable.

The Ministry of Finance conducted an impressive defensive operation—and still does—for in no sense has it yet exposed domestic financial institutions to the full force of foreign competition. But the U.S. is so important to Japan in so many areas that its demands cannot be shrugged aside.

Concessions have been made, such as freeing up Euroyen operations, progressive deregulatio nof large deposit interest rates, access to the pension fund market and so forth. These may have happened in any case, but it is difficul tto refute the argument that U.S. pressure hastened them.

A different approach, was involved with the British. The first blueprint in this phase of liberalisation was drawn up in the British Embassy in Tokyo in the summe rof 1983, before the U.S. had focussed on the problem and realised its potential leverage. It was an initiative which failed to interest other members of the European Community at the time.

The British hand was revealed last autumn when a delegation headed by Mr Geoffrey Littler of the Treasury went to Tokyo. It lacked U.S. aces but it was not devoid of trumps.

The most potent was the argument that Tokyo must take its place alongside New York and London as the third international major market place in finance. Therefore, there had to be a degree of reciprocity.

UK financial institutions had to enjoy something approximating the access to Japanese markets that Japanese counterparts possess in London. A careful distinction was made that this did not extend to deposit-taking licences for *Japanese securities houses* in London, which the Bank of England insists is a different matter.

Influential

There was an educational process too — hardly surprising since Tokyo is not the best vantage point to keep abreast of the financial revolution in London. This appears to be paying dividends, as UK merchant banks — S. G. Warburg to date, others to follow — are being allowed to upgrade brokerage operations in Tokyo, and two commercial banks are likely to be allowed to engage in Japanese trust banking.

In both cases, but especially with trust banking, the UK Government's submission appears to have been influential in explaining what UK institutions did.

Other nations seem keen to follow the Anglo-American path. Mr Littler said last autumn it was a mutual *omission that financial officials* from the UK and Japan had never talked to each other on a regular, institutionalised bilateral basis—even though the UK conferred with the U.S. and other European countries virtually every other week.

Since then, similar consultative mechanisms have been set up with West Germany, and others await the right initiative. They matter because in Japan far more than in most nations, government matters. Little happens without its knowledge.

Mr Noboru Takeshita, the Finance Minister (left) has come under pressure from outside Japan to ease finance market controls. Mr Geoffrey Littler, of the UK Treasury (centre), argued for concessions to match the access Japanese institutions have to London markets. Mr Beryl Sprinkle, U.S. Treasury Under-Secretary, touched a raw nerve in demanding that Japan became like the U.S. overnight, bowing to the free market. But the Japanese put up an impressive defence

Financial Market Liberalisation Measures

Effective April 1 1984

1. Real demand rule abolished.
2. Ban on domestic sale of overseas commercial paper and Certificates of Deposit lifted.
3. Limits on the issue of CDs raised in stages.
4. Guidelines on issue of Euroyen bonds by residents relaxed.
5. Standard for companies issuing unsecured bonds in Japan relaxed.
6. Standards for issuing Samurai bonds relaxed.
7. Ban on issue of external bonds with long-term forward exchange contracts lifted; ban on issue of dollar-denominated yen-linked bonds lifted.
8. Non-prudential limits on overseas yen lending from Japan removed.

Effective May 26

Legislation for issue of foreign currency public bonds enforced.

Effective June 1

1. Ban on short-term Euroyen lending to residents lifted.
2. Restrictions on conversion of foreign currency into yen abolished.
3. Dealing in Japanese government bonds approved.

Effective July 1

1. Designated-company system abolished.
2. Investment in Japanese real estate by non-residents liberalised.
3. Standard for issuing Samurai bonds relaxed.

Effective September 1

Standard for offering Samurai bonds through private placement relaxed.

Effective October 19

Dealing in Japanese government bonds by three foreign banks in Japan approved.

Effective December 1

1. Issuing of Euroyen bonds by foreign private corporations, state and local governments, and government agencies authorised.
2. Lead management of Euroyen bond issues liberalised.
3. Rules concerning issuing of Samurai bonds relaxed.
4. Issuing of Euroyen CDs (six months or less) authorised.

Scheduled for 1985

1. 20 per cent withholding tax payable by non-residents on Japanese Euroyen bonds to be abolished.
2. Foreign banks, probably eight initially, to be licensed in Japanese trust handling.
3. More non-resident private corporations will be allowed to issue Euroyen bonds.
4. Money market certificates to be approved.
5. Minimum denomination of CDs to be reduced from Y300m to Y100m and maturity from three to one month.
6. A yen-denominated banker's acceptance market to be established.
7. More foreign securities houses likely to be granted full branch status.

Liberalisation is a serious business, but it has its mysteries. An anonymous foreign broker lifts the curtain.

What the rule book does not cover

THERE ARE perhaps 500 foreign stockbrokers in Tokyo, one of thet smaller cliques in *the foreign community. Less* boisterous than the U.S. Marines, less hairy than English teachers, the stockbrokers appear to present a united front of striped shirts and stuffed wallets — o roccasionally vice-versa.

Yet as observers of the Japanese political scene will be particularly aware, a united front is rarely as united as it looks.

There are two distinct breeds of broker in the city. Seasoned financial profesionals, hardened by years of experience in New York or London, find themselves in Tokyo because it is an indispensable rung on the carrer ladder. Often they arrive know little of Japanese cluture and less of the language.

Then there are the Japanese speakers, less familar with the ways of the market, for whom broking is often the most lucrative way to exploit their hard-won language skills.

There is the third type, who combine a proven track record in the business with proficiency in the language. But they are as rare as, and more valuable than, gold dust.

But neither experience nor language ability are guarantees of success in the unique world of Japanese stockbroking. The Tokyo Market operates on different assumptions from New York or London. It is occasionally prone to behaviour which no amount of experience can explain.

Wasted

Few doubt the existence of senryaku meigara (strategy stocks) whose charts bear even less relationship to the company's basic merits than the most fervent of fundamentalists would deam normal.

There are even those brave enough to posit the existence of seiji kabu (political stocks). These appear to take on a life cf their own as election day approaches, a phenomenon thought by some to be not entirely unconnected with the need for politicians to raise extra money at that time.

Certainly, long nights poring over books like Techniques of Investment or Interpretation of Accounts for the Stock Exchange exams are so much wasted time when it comes to deciphering the logic behind these shares' movements.

Stocks which display this exotic behaviour tend to be smaller companies with names names that few foreign fund managers are willing to attempt to pronounce, let alone invest in. And who can blame a fund manager from shying away from a stock *with a price/earnings ratio of 125?*

Not that the language ex*perts are better equipped* than the professionals for success. Even the simplest of word may carry unsuspected nuances in Japan. Few articles on the Japanese financial world get beyond paragraph one without mention of the words liberalisation or internationalisation, but do we appreciate their ambivalence for morst Japanese?

To take liberalisation first: it should be plain that in a country where the conservative status quo is defended by a party called the Liberal Democrats, a more limited interpretation of the word is likely to be prevalent than in nations steeped in the traditions of Adam Smith or Thomas Jefferson.

The current generation of Japanese leadership, born in the first quarter of the century, has seen the nation run the gamut of political configurations from aristocratic oligarchy through military *dictatorship to parliamentary* democracy. A certain dizziness and a reluctance to press the accelerator pedal to the floor is to be expected.

Internationalisation presents no less thorny a problem. Japanese pride themselves on their international awareness, and do well in tests about the capitals, prime ministers and main industries of countries around the world.

The advertising industry uses foreign faces, places and catchphrases with abandon. No sports car commercial is complete without its Manhattan bacskdrop, while street posters enigmatically entice you to "Refresh your life," "Enjoy Humming Day" or simply "Let's Active."

But this is cosmetic internationalism, and, like good make-up, it hides a myriad of flaws.

Visiting missions of bankers, bureaucrats and politicians are not satisfied. Scmething more concrete—perhaps an unfettered Euroyen market or an expanded TSE membership—would do more to demonstrate Japanese willingness to internationalise than a thousand TV commercials for Arnold Palmer sportswear.

I know how these visitors feel. The more they succeed in cajoling Japan down the road to true internationalism, the easier my job will become. But along with the frustration and bewilderment, much of the excitement will disappear as well.

I console myself with the thought that by the time the process is complete, I will be amply qualified for a job on the Peking Stock Exchange.

JAPAN: Banking and Finance 3

Economic Outlook
(% change from previous year)

	Fiscal 1985	Fiscal 1984*
Gross national product		
(Nominal)	+6.1 (314.6)†	+ 4.5 (296.4)†
(Real)	+4.6 (235.0)†	+ 5.3 (274.8)†
Private final consumption	+4.1	+ 3.1
Private housing	+3.8	+ 3.1
Private capital investment	+4.5	+10.1
Employment		
Labour force	+1.0 (60.1m)‡	+ 1.0 (59.5m)‡
Employed population	+1.1 (58.5m)‡	+ 0.9 (57.8m)‡
Per capita employee income	+5.0	+ 4.4
Unemployment rate (%)	2.7	2.8
Mining and manufacturing production index	+4.5	+10.8
Prices		
Consumer price index	+2.8	+ 2.4
Wholesale price index	+1.1	+ 0.2
Trade (yen-based)		
Exports	+6.1	+14.6
Imports	+7.6	+10.6
Balance of payments surplus **($bn)**		
Current balance	24	23
Trade balance	44	44

* Estimate. † Y trillion. ‡ Numbers.

U.S. demand and electronics investment the main factors in current expansion

Answers lie in Washington, not Tokyo

Satoshi Sumita, new governor of the Bank of Japan, has been non-committal on monetary policy

Economy

JUREK MARTIN

FOR A country whose economy is, according to popular belief, subject to close Government control, it is remarkable how little official Japanese action has influenced the current expansion phase.

The combined impact of fiscal and monetary policy has been broadly neutral; the former, reflecting the Government's determination to reduce spending and refinance the vast maturing public debt, remains a negative factor, offset by a relatively relaxed monetary stance, under which, by its broadest definition, the money supply has been allowed to expand by 7.7 per cent.

There is little in the 1985 fiscal year budget, taking effect from April 1, to point to much change. Yet again, the Government has failed to bite the bullet of substantial tax reform, largely because of political considerations. Although total spending in fiscal 1985, at Y52.5 trillion, is 3.7 per cent higher than in the current year, almost all the increase is taken up by higher debt-servicing costs and transfers to local governments.

The only sectors to receive substantially higher allocations are defence (up 6.9 per cent) and foreign aid (10 per cent), but neither is a main contributor to domestic productive activity.

On the monetary side, the initial public comments of Mr Satoshi Sumita, the new Governor of the Bank of Japan, have been predictably non-committal. The principal constraint of the central bank remains the value of the yen against the dollar which, the authorities freely concede, is not as high as it should be. The yen is much stronger against European currencies, but with so much of Japan's trade denominated in the U.S. currency, it is the dollar rate which is paramount.

The central bank has shown an occasional willingness to intervene in the markets to prevent too sharp a dollar appreciation, but it has been much less inclined to tinker with domestic interest rates. Japan believes the answer lies in Washington, not Tokyo.

Exports

And it is the U.S. which has been one of the two main factors which has boosted the Japanese economy in the current business cycle. U.S. demand has certainly contributed to the strength of the second element, the electronics sector, whose soaring exports and extensive capital investment outlays have more than compensated for the absence of official impetus.

This is, however, not quite what the Government had in mind a year ago. Exports were intended to continue as a significant element, but domestic consumer demand would gradually take over as the main engine driving the economy forward. In the event, exports are accounting for about 60 per cent of overall growth in gross national product in the current fiscal year, with the U.S. market accounting for 70 per cent of the growth in exports.

Sumitomo Bank's economic analysis shows that electronics-related industries have taken up 40 per cent of export expansion—much to the U.S. But the growth of electronics in Japanese industry is not entirely because of external demand.

The maturing of the Japanese economy and the waves of technological advances have induced widespread rationalisation, much of it through introduction of new technology, even in those industries which do not live and die by exports. In Japan, whose foreign trade comprises a much smaller percentage of economic activity than in average European industrialised countries, this encompasses a lot of companies.

Thus, spending on electronics innovation in the current year accounts for about 60 per cent of the overall increase in corporate capital investment, itself up an estimated 10 per cent compared with the previous year.

While the strength of exports and capital investment have served Japan well over the last 12 months, there is some question about their durability. It is, for example, a matter of some debate inside Japan as to how closely investment intentions are tied to exports in the electronics sector. Already there is evidence of a global glut in some conductors (in which Japanese capital investment rose by 90 per cent compared with 1983).

It is also hard to imagine U.S. demand for video recorders, which doubled in calendar 1984, continuing at the same pace. The U.S. economy, in the broadest sense, is forecast to be slowing down in the second half of this year.

This will clearly have an adverse impact on Japan. Official estimates are that capital investment in the 1985 fiscal year will grow more slowly, by a little over 8 per cent compared with the current 10 per cent rate. Some private forecasts point to a bigger slowdown, depending on how intimate the relationship between exports and investment proves to be.

Failures

Overall, the growth in Japanese GNP, while still likely to exceed 4 per cent in real terms in the next fiscal year, is likely to be front-loaded. By next winter, the economy may be growing at an annual rate of little more than 2 per cent.

This is a prognosis which many other industrialised governments would view with equanimity. Indeed the only blot on the Japanese economic horizon is that in spite of the general health, business failures are running at an historically high rate.

This phenomenon appears to have two roots: companies dependent on government contracts have been affected by the slowdown in public works, and those in electronics markets have found the competition ruthless and the inability to compete with technological innovations often fatal.

There have been no bankruptcies that have shaken the foundations of corporate Japan. The biggest failure was of J. Osawa, a medium-sized trading firm specialising in luxury goods, but its case appeared to be rather special. Many other failures have been of extremely small companies.

Mergers and acquisitions on a Western scale remain alien, though diversification by some of the biggest companies is prompting some small takeovers.

In the broadest sense, the Japanese economy is well balanced. Inflation does not constitute a problem. It is possible that this spring's wage offensive may produce higher increases than in the last three years, but mostly because the unions feels the need to score a point or two.

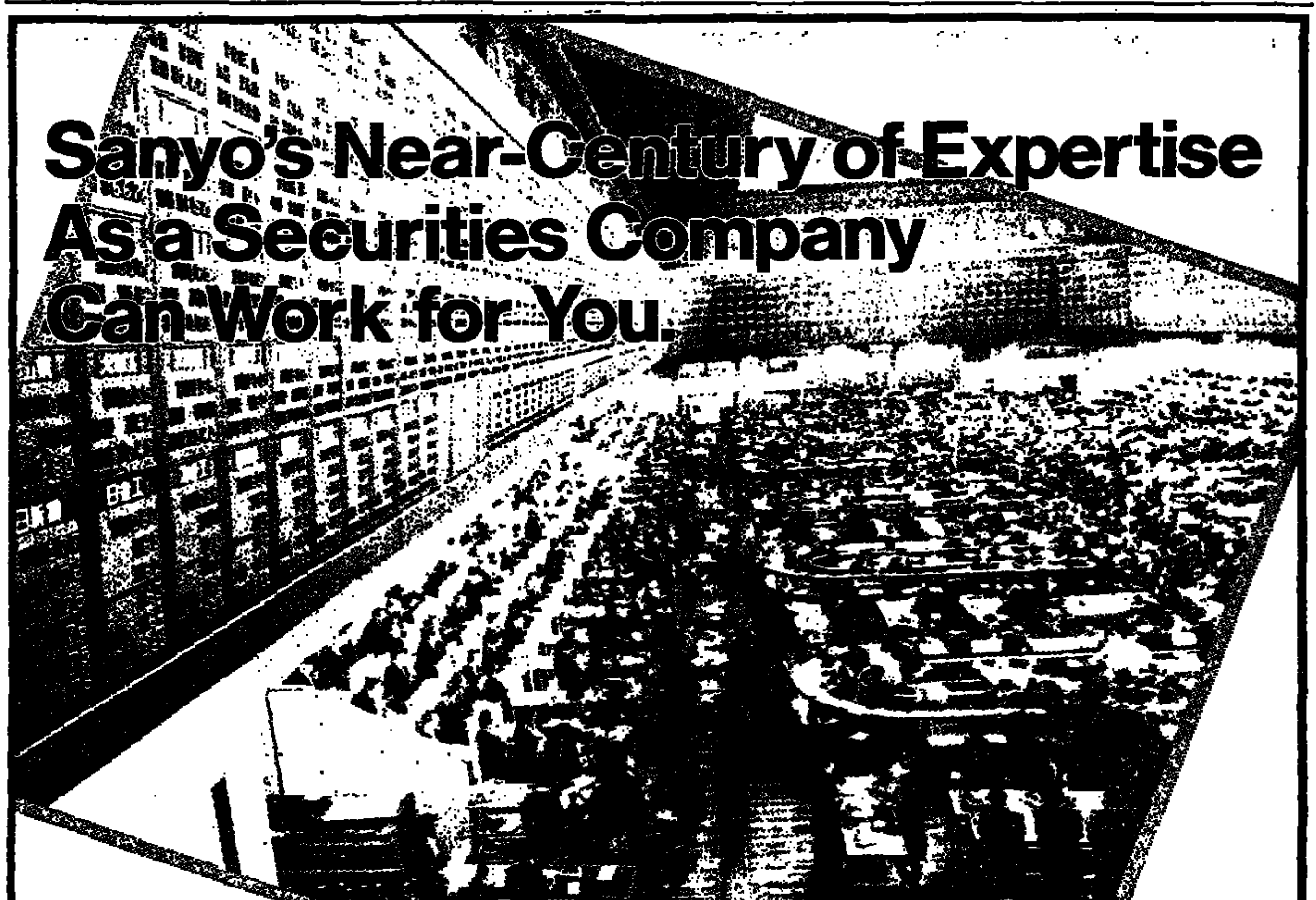
Unemployment is likely to remain below 3 per cent under the Japanese system of measurement, though the composition of the labour market is changing as more women find jobs outside the home, many part-time ones. Consumer demand should pick up more, though probably not to the point where it becomes the main driving force of the economy.

The Government's main economic problems, debt financing apart, are on the external side, chiefly in the international consequences of running trade and current account surpluses of probably more than $45bn and $35bn respectively.

From a technical standpoint, these are offset by long-term capital outflows comparable to the current account surplus, but this cuts little ice with the U.S., which can be expected to increase pressure on Japan.

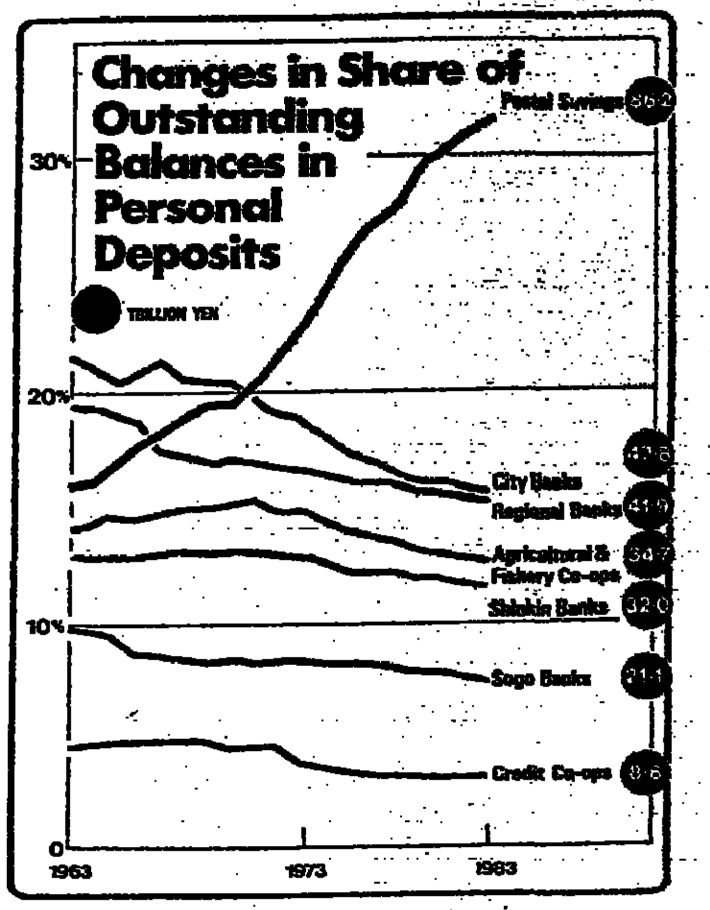
A higher valued yen against the dollar — it stands at a 26-month low — would help, and most analysts forecast — though without confidence — some appreciation this year. But it is conceded that this is more likely to be achieved by policies made in Washington than in Tokyo.

This ais very much the story of the Japanese economy today.



Banks face challenges from a powerful competitor and their own uncertainties

Demands for reform put off by Cabinet



Postal Savings

CLIVE WOLMAN

MUCH OF the pressure to liberalise Japan's financial system has been deflected over the last year onto the shoulders of the world's largest deposit-taker, the Postal Savings Bureau.

With personal deposits of more than Y90 trillion ($360bn), one third of Japan's total and not far short of the UK's gross national product, the bureau is both feared and condemned by Japan's other retail bankers. Their personal deposit base has steadily eroded over the last 20 years as the bureau's market share has doubled.

Each interest group has a different cause for complaint about the set-up of the bureau and different criticism about how its operations diverge from the principles of a liberal financial system. There have been demands for a variety of changes to be introduced in the 1985 Budget.

The commercial banks complain that the tax system is skewed in the bureau's favour and that the banks are unable to compete with its tax-free interest offers. They also claim that the bureau can promote new types of savings schemes with few constraints on costs.

Officials in the Bank of Japan and Ministry of Finance view the bureau, which is run by the Ministry of Posts and Telecommunications, with suspicion as it has shown increasing willingness to set its interest rates independently of some of their controls.

The small, low income savers with the bureau, for whom the tax breaks are of least importance, have also lost out, earning interest on their money at rates well below those of the money markets—even though the bureau remains their simplest and most popular repository, with 23,000 branches around the country.

Finally, officials in the bureau have been pressing for three years to be given freedom to invest part of their funds in money market instruments and government bonds. The officials serve merely as conduits to pass all the funds directly into the Trust Fund of the Ministry of Finance, under a century-old law. There it is used to finance public housing, infrastructural investment and small business expansion. There is particular emphasis on rural projects and agricultural co-operatives whose beneficiaries wield political clout within the ruling Liberal Democratic Party.

The national budget for fiscal 1985 adopted by the Cabinet towards the end of December left the would-be reformers disappointed.

Generous

Proposals for changes in the bureau's tax status were at least given serious consideration. The Ministry of Finance submitted proposals to levy a separate 5 per cent tax charge on the interest from all postal savings and tax-free deposits with the banks. This was rejected by the cabinet, however, which shelved reforms until 1986 at the earliest.

The tax system is generous towards nearly all savings, whether in commercial banks or in the Postal Savings Bureau. But there are important differences in the rules and the way they are enforced.

Savers with the commercial banks are exempted from tax on the interest on their first Y3m ($12,000). This is the ceiling on the combined total of all bank deposits for an individual. It is enforced through checks on the application forms taxpayers submit for exemption.

The interest on all deposits with the bureau are tax exempt. However savers are not allowed to deposit more than Y3m in ordinary savings, plus Y4.5m in property accumulation savings and Y0.5m in housing deposits.

Many wealthier savers with more than Y3m—fairly common in a country whose savings ratio is still close to 20 per cent—have employed a variety of devices to side-step this restriction, many of which will be familiar to those who stag equity issues in the UK. One depositor was caught with more than Y50m in the bureau with his dog among the designated beneficiaries. It is estimated that 10 per cent of deposits are illegal.

Mr Tadao Tateno, director of the bureau's international service division, says the completion of the bureau's nationwide computer network last March has enabled it to track down multiple deposits. About 50,000 taxpayers have been detected and obliged to withdraw their excess deposits, although they are not subject to tax penalty, he says.

The bureau's claims are treated sceptically by Mr Nagao Hashimoto, a manager of the Federation of Bankers' Associations of Japan. "It is easy to escape the checks by changing the address slightly," he says. "The real problem is that the bureau has no incentive to catch people, as it means less money for them."

On a pre-tax basis, interest rates of the commercial banks are competitive. For a two-year time deposit, the banks were offering in December a rate of 5.75 per cent. This is equal to the maximum offered by the bureau compounds the interest semi-annually, unlike the banks.

For shorter deposit periods of 12 to 18 months, the bureau's rate drops to 4.0 per cent. In this range, the medium-term government securities investment trusts, established five years ago, have a clear advantage—at least before tax—as they are linked to capital market rates. Their yield is about 5.5 per cent.

Because of fears of competition from the bond investment trusts, the banks opposed the proposal to subject all bank deposit interest to a 5 per cent tax, even though the tax was to have been extended to the Postal Savings Bureau. Having blocked this proposal for another year, the banks will have to remain content with a government commitment to tighten controls to prevent abuse of the postal savings scheme. One planned weapon of control, a "green card" identification system for savers, has just been abandoned, however.

In its Budget decisions, the Cabinet once again left in abeyance the bureau's request for a limited degree of investment freedom. Mr Shigeo Sawada, the bureau's director general renewed an appeal for investment freedom and linked it to a plea for the deregulation of interest rates for small savers just before the announcement of the agreement of the U.S.-Japanese working party in May on liberalisation.

Raw deal

His argument was used both on neo-classical laissez-faire economical grounds and in terms of ending the raw deal small savers have been suffering. In August, a study group of economics and other professors produced a report which argued on similar grounds for a liberalisation of fund-raising and investment operations of the bureau.

The bureau's case has been bolstered by the relative freedom granted to its sister organisation, the Post Office Life Insurance and Annuities Fund managed by the same ministry. In 1981 and 1983 the managers of the fund, with assets of Y25 trillion, were allowed to invest up to 10 per cent in overseas bonds for the first time. This permission was another small move towards exposing Japan's domestic interest rates to competition from world capital markets, although the fund has so far invested only Y0.33 trillion in foreign bonds.

For the bureau, the blast of competition would also mean that it could no longer run continual trading losses as it has for eight of the last 10 years. Such losses say the banks, are another indication of the unfairness of competition between them.

But Mr Tateno says that the bureau's general administrative expenses to deposits ratio has been held at 0.7 per cent, about half of that of the city banks, due mainly to its exemption from corporate rates and to the lower salaries the Government pays its employees.

"We have nothing to fear from deregulation," he says.

Share-price split shatters harmony

The Banks

TERRY POVEY

THE last year has been a fairly tumultuous one for Japan's major banks. Gearing up to meet the challenges of liberalisation, the competition from the securities houses and a more uncertain situation as far as the cost of funds is concerned has clearly hurt a number of them as their mid-term results indicate.

In addition the old harmony among the 13 city banks has been broken, perhaps irreparably, by the decision of the "big five" to break with the pack and free share prices from the previous carefully managed levels. As a result bank stocks have taken an leading role in the great upswing on the Tokyo stock market beginning at the tail end of 1984 and running strongly on into 1985.

The decision to make this last move was initiated by Sumitomo Bank, which usually tops the City Banks (the 13 leading commercial banks) net profits league, in January after the bank had discussed with brokers the possibility of breaking with the "convoy administration" system run by the Ministry of Finance. Throughout 1983 share prices of the City banks had hovered around the Y500 mark; when Sumitomo moved, its shares hit Y1,220 by March 30.

The reasoning behind Sumitomo's move was that it needed to be able to raise large sums to finance automatic telling machines, expand overseas (it spent $144m buying a 52.7 per cent stake in Switzerland's Gotthard Bank) and improve its services to domestic account holders (and attract many more through a large scale advertising campaign). With the managed stock price it was in effect being held back at the level of the more junior (in profit terms) City Banks and would have to make an enormous earnings dilution to raise the kind of finds it was seeking

Pleaded

This act by Sumitomo broke decisively with the cosy practise whereby Japan's major banks had all raised their funds existing shareholders on a through simultaneous issues to once every three years basis.

The rapid rise in Sumitomo's price was soon followed by sharp increases in others (no doubt after they had pleaded with their brokers for equal treatment) and it very quickly emerged that in the year of liberalisation the Japanese punter saw the financial sector as a key one for making a capital gain.

By and large the price spread that emerged by late March fitted well with the pattern of profitability. Sumitomo was on top with Y1,220, Fuji Bank was next with Y994, then Mitsubishi Bank Y930, Sanwa Bank Y926 and Daiichi Kangyo Bank (DKB) with Y865.

However, on March 31 managed stock prices were reintroduced and the (big five) all ended the year on Y1,150.

More recently this collapse yet again with the big five enjoying further sharp price rises. By the end of last week Sumitomo Bank was on Y1,760. DKB (following its good interim result) was on Y1,400. Mitsubisahi Y1,390, Fuji Y1,370 and Sanwa Bank Y1,250.

As a result of the last year's price movements in its shares the market capitalisation of Sumitomo Bank has risen three and a half times to some $15.4bn. The rises in market cap of the major banks has enabled many of them to become eligible for being traded on the margin (60 per cent down payment required on share purchases with the balance to pay in six month's time) as of late November—so further attracting the interest of a highly speculative market that is looking for opportunities in just this sector.

The split on share pricing had been foreshadowed a year earlier by a division on dividend policy. For the year to March 1983, even of the City Banks increased payouts by Y1 to Y6 while the other six stayed at Y5 — the first divide on dividends for 50 years.

In the year to March 1984, this split widened further. The seven lifted dividends again, this time by Y0.5 to Y6.5, while five of the remaining six stayed at Y5. The Bank of Tokyo, originally a dividend laggard, tried to make up ground by increasing its pay-out to Y6.

The big five at March 1984 had combined assets of Y129,509bn (56.8 per cent of the City Banks' total), combined deposits of Y96,724bn (55.1 per cent of total) and employed more than 85,000 people. But they have not found the going that easy — even if a new premier league is fast becoming a fact.

Overseas operations have not always proved to be an immediate boon. In the late autumn Fuji Bank was obliged to sell some short term investments to cover $47.5m losses in "unauthorised trading" at its New York branch.

The foreign exchange dealing room at the Sumitomo Bank, Tokyo

Such shares are often shown on the books at purchase price so the strong Tokyo market would have made this a relatively painless operation. Nonetheles, the warning signals were clear and the Japan regulatory authorities were quick to announce plans to investigate controls and procedures in the overseas branches of major banks.

Deposits

In the March 1984 accounts earnings from overseas subsidiaries of the big five were modest, ranging from 13 to 18.7 per cent of total revenues. Sumitomo Bank is clearly hoping for a good deal more than this in the future—although it claims that it does not have a 50/50 target.

On the domestic front the majors are facing a rising cost of funds because of liberalisation. According to Mr Kazuo Kida, Sumitomo Bank's chief economist, within three years half of the funds required by the City Banks will be bearing free market interest rates, compared with less than a quarter at present.

Already large deposits are attracting freed rates and this has done much to dent earnings. It has made the margin on straight lending an increasingly thin one.

In the more competitive environment generated by market - determined interest rates the less efficient banks are bound to suffer. Japan, which has ont seen a large bank collapse since the second world war, may need to accept that the arrival of the big five means the dawn of difficulties and even bankruptcies.

The ministry may seek to reduce the number of banks by "guided" mergers, or it may set up "intensive-care ward" facilities to aid troubled financial institutions.

Although these steps would be in character, they would run against the liberalisation drift, and then who would pay for such treatment?

Analysis still based on parent company reports.

Consolidation remains icing on the cake

Accounting

TERRY POVEY

OVER the last two years Japanese company reporting standards have improved immeasurably—in spite of a good deal of grumbling about the additional work from many of the companies. Greater use of overseas markets for raising funds plus a slow but steady increase in the number of Wall Street listings have all contributed to the pace of change.

For years company reporting in Japan laboured under the weight of a multiplicity of standards, with the emphasis on parent company results—the "consolidation, de-consolidation game"—as one analyst at a Japanese brokers described attitudes to subsidiaries and associates. For the foreign investment manager, the use of terms that lack exact equivalents *in hte U.S. or Europe* was also a burden.

All of this was made worse by the complete absence of any shareholder democracy—which meant that no investor or analyst could rely on pertinent questions being put at meetings to help fill in the gaps left by the reports. Instead universal use was made of the Sokaiya, hirelings of the board who silenced any dissident voices and moved motions of praise for the powers that be.

Unnoticed

But as liberalisation has opened up more options for the investor and as the question of return has become more critical so the pressure to convince that *the published statements* are facts rather than factions has grown steadily. When medium-sized trader J. Osawa collapsed in February 1984 there was an almost unanimous outcry from the company's employees, the Press and the business world calling for tougher implementation of the consolidation rules.

As from last year the Ministry of Finance has imposed the requirement that all listed companies should consolidate subsidiaries and should fully equity account for the contributions of all associates in which more than a 20 per cent stake is held.

While differences remain between the U.S. Security and Exchange Commission's form of consolidation and that practised in Japan, it should now no longer be possible to simply dress up the year-end balance *sheet by stuffing debt into an* unconsolidated unit, or of carrying large inventories through the same process.

The major problem that remains with consolidation is as much a psychological as an accounting difficulty. "Japanese companies have formally accepted that they must make a year-end consolidated statement but only a tiny minority have accepted the spirit of this change," commented a Japanese broker.

One implication of this is that *even very big* businesses are not run internally on an consolidated basis during the year and that therefore the group report is seen as at best icing on the cake or at worst an irritant.

The practise remains therefore to publish parent company (or unconsolidated) statements twice in the course of the financial year of any company —there are no rules as to the year-end, and although just over a half of Japan's listed companies now use the government's financial year to March 31, a wide variety of dates chosen for historical, sectoral and promotioan reasons exists.

Consolidated accounts appear usually one month to six weeks after the annual parent company statement and normally pass virtually unnoticed by the market—it having already had plenty of time to react to the earlier document. Forecasts are produced only on a parent company basis (made easy as these can be massaged in the old way) and no interim consolidated information is available at all. The only exceptions to this are those companies, such *as Sony, with U.S. listings who* report quarterly on a consolidated and parent company basis, both reports being published at the same time.

Furthermore despite their own repeated statements of *support for consolidated reporting*, Japan's leading brokerage houses still do almost all their analytical work on the parent results. "Many Japanese brokers are even unhappy to discuss consolidated reports," says a foreign broker working in Tokyo.

Given that the MoF has taken the step of imposing internationally acceptable *consolidation* rules one must hope that it is only a matter of time before it outlaws the prior publication of parent company results. This would end the practise, which even some foreign brokers have joined in with on a "macho" basis, arguing that "if the market is going to react on the unconsolidated information what's the point of punting one's analytical emphasis on the consolidated report?"

The format in which Japanese *companies produce their results* is also a cause for some confusion. Up until the mid-70s there were three different standards —one arising from the Commercial Code, another from the Securities and Exchange Law and yet another from the requirements of the tax authorities. Differences between these were fundamental rather than presentational, with the definitions of terms and categories reflecting very diverse underlying philosophies.

Performance

In the mid-70s the first two standards were effectively merge:. However, the tax authorities by insistang that the financial statement drawn up for them be the same as that for purely financial purposes (in the U.S., for example, the two are quite different) has left companies with little alternative but to file the tax return as the financial statement.

As taxable income is not the same as accounting income reported in the income statement and as adjustments are made to revenues, costs and expenses in line with the taxation policies of central and local *governments* this inevitably leads to some distortion in the presentation.

The emphasis on the tax statement is one of the reasons for the many levels of profit quoted by Japanese companies (with due emphasis on the most favourable). A typical simplified statement of income is (all figures in millions):

Sales: Y113,246.

Cost of sales: Y88,792.

Gross Profit: Y24,454.

SGAE (selling, general and administrative expenses): Y18,875.

Operating Income: Y6,579.

Interest and dividend income: Y3,099.

Interest paid: (Y7,050).

Gains on the sale of current assets*: Y1,658.

Foreign exchange gains (losses) on normal operations: (Y1,711).

Recurrent (sometimes called current Profit: Y2,575.

Extraordinary gains (losses): (Y240).

Pre-tax Profits: Y2,335.

Taxes or provision for taxes: Y904.

NET PROFITS: Y1,431.

* Cash, time deposits, short-term (less than one year) securities, trade accounts.

(In the Financial Times we have adopted the practice of dubbing recurrent profit as pre-tax for the sake of making the term more readily understandable to non-Japanese readers, clearly the inclusion of extraordinaries above the line makes the Japanese companies pre-tax an unsuitable profit level for comparative purposes, *although* one should be wary of the distorting effect of this on what appears to be the tax rate.)

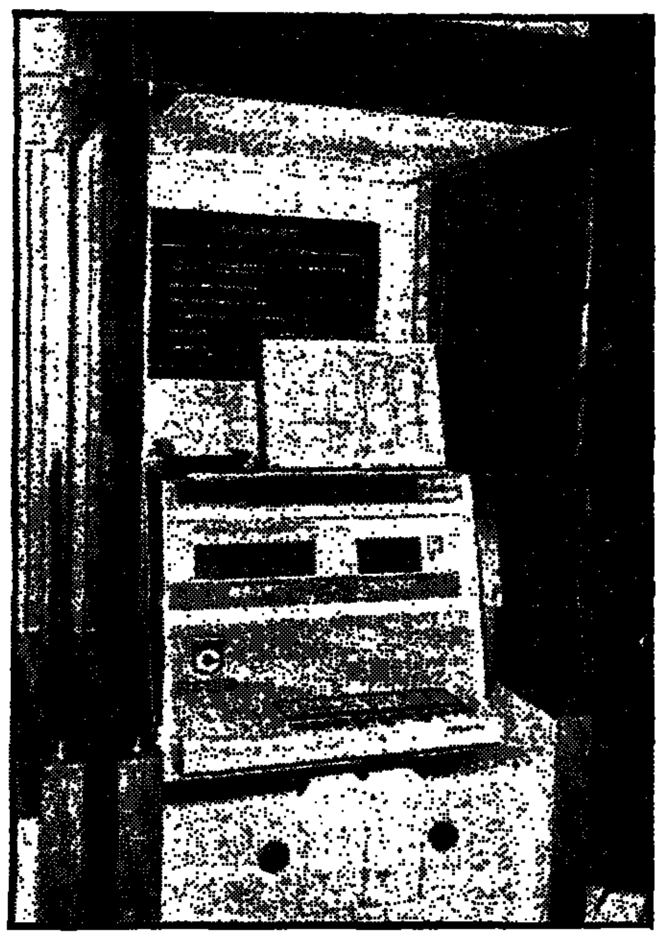
Most interest in Japan is shown on the recurrent profit level—it is seen as the best *crude* measure of a company's performance in its main line of business, assuming, of course, that selling assets is not anyone's principal area of activity. The key "return on capital" ratio is calculated as recurrent profit plus interest paid divided by the total of shareholders' equity and long-term debt.

One broker, however, *favoured* concentrating on the operating income plus net interest as the best guide to a company's result from its core business.

This emphasis on recurrent profit also fits with the traditional concentration of Japanese companies on boosting sales and market share and more or less ignoring what is beneath the line. Docile shareholders have made it all too easy to get away with this—and poor earnings per share and pathetically low dividends are endemic.

Yet it would be wrong not to conclude by pointing to the trend towards better and more timely reporting.

A Japanese banker said: "Japan may now be where the U.S. was 50 years ago and most of Europe 30 years ago but the process of catching up is very rapid once it's started. In the end the market will set the pace, refusing to make long term commitments to companies *who decline to make adequate* reports and as the banks and major industrial concerns go their own way so funding will become more dependent on published financial information rather than the result of private discussions around the boardroom table between partners locked-in for fear of failing."



A telling tale of automated banking

The Japanese are the most advanced users of automated teller machines (ATMs). In this typical bank branch in the middle of Tokyo (above) ATMs line the walls, each in its own cubicle, and customers queue to use them.

Japan is still a cash-based society and businessmen take large wads of notes from the machines each morning, returning unspent amounts to the same machines at the end of the day.

The machines are much more sophisticated and offer a wider range of services than those in Europe. They are also more commonly found in shops and stores (left).

Alan Cane

Aggressive sales teams almost double asset values

Investment Trusts

CLIVE WOLMAN

FOR 15 YEARS, Japanese investment trusts — the main portfolio investment medium for the small saver — were despised and generally shunned for their poor investment performance, abuse of client funds and hard-selling tactics.

Since 1982, however, although many of the old complaints persist, they have enjoyed an upsurge in popularity. The value of assets under management has almost doubled to more than Y16 trillion ($65bn), which exceeds pension fund assets. The rate of growth in asset value has been similar to UK unit trusts over the same period. But in Japan, successful selling has been the main factor rather than strong investment performance.

The marketing of investment trusts is imaginative and aggressive, although constrained by edicts of the Ministry of Finance. In November, for example, newspapers carried half-page adverts for the Venus Ladies Fund, which offered the prospect of "unconditional happiness." For the benefit of its target market, the fund would be investing in growing companies specialising in cosmetics, fashions, shopping and "new life-style" industries, the advert said.

Teams of salesmen are highly motivated, although not particularly by commission payments which are small and often frowned on as promoting excessive individualism at the expense of team cooperation. Instead, incentives are provided in sales targets for each branch, large twice-yearly bonuses and promotion.

Marketing

The 11 investment trust management companies, which are normally linked to the larger securities firms, have reduced door-to-door selling in the suburbs and are placing more reliance on the telephone. The Tax Bureau's annual lists of top taxpayers in each region are in indispensable aid in selecting target households.

But most marketing efforts are directed towards women. Partly for that reason there is a large number of women on on the sales teams.

Some innovations have more substance. Last spring each of the Big Four's trust companies —Nomura, Daiwa, Nikko and Yamaichi launched a fund each containing about six sub-funds covering different industrial sectors such as electronics, health care or chemicals and steel. Investors can shift money between the different sub-funds according to their outlook, usually without paying charges.

But it is a reflection on the nature of the competition between Japanese financial service groups that all four companies launched this type of fund at about the same time. A similar phenomenon can be seen in the trusts' investment policy.

As if with one mind, all decided that the U.S. was the only attractive market in which to invest an overseas portfolio in bonds or equities. Last year about 95 per cent of overseas investment trust assets were held in the U.S.

Sometimes such conformity is enforced by the Ministry of Finance. For example, when the Daiwa investment trust launched a new type of bond fund, it was allowed to raise only Y70bn, not the Y200bn it requested. Instead, the other Big Three companies were asked to launch similar funds to raise Y70bn each.

The bond funds have been the most important source of growth for the industry since 1980. Then a new type of fund investing in Government bonds with lives of two to four years was launched, and has increasingly been viewed as an alternative to bank deposits. The value of assets in bond investment trusts has risen from Y2 trillion to well over Y9 trillion in four years, although according to Nomura 50 per cent of assets are invested by institutions rather than individuals.

The upsurge in popularity of bond investment has disguised the fact that the Japanese public has remained deeply suspicious of investment trust involvement in equity fund management. Even the "equity" investment trusts—whose maximum equity holdings are, however, often limited—reduced from 55 to 36 per cent the proportion of equities held in their portfolios over the last 10 years. While 22 years ago investment trusts held more than 9 per cent by value of listed Japanese stocks, now they hold only 1.5 per cent.

In the 1950s and early 1960s, securities houses undermined the buoyancy of their own market by consistent abuses. The investment trusts were used as dumping grounds for poor investments and reservoirs from which to take the more attractive shares for other more favoured clients. And portfolio turnover provided an inexhaustible source of commission for the houses' brokerage arms.

Purging of such abuses has been a slow process. When the Ministry of Finance has taken action, conflicts of interest and abuses have often re-emerged in different forms. The ministry's interventionist policy can be dated from 1964-65 when a falling market led to mass redemptions by short-term investors sucked in by over-active selling. Yamaichi Securities was saved from collapse only by government action, and several funds had to postpone redemption dates.

As a consequence, the ministry now demands detailed monthly reports from trust managers. The managers have to explain investment decisions and state changes in policies for the immediate future, including new companies in which they intend to take a stake.

Under pressure from the ministry, the securities houses were also, 25 years ago obliged to spin off investment trust management operations into separate subsidiaries. But some managers will admit that has removed few conflicts of interest. The investment trust subsidiary will continue to do most of its dealing through its parent broker—although other smaller brokers will also be rewarded according to a fairly explicit formula if they have sold many trust certificates for the management company.

Investment trusts also take on their books newly issued shares that their parent companies have underwritten.

According to one broker: "The president and managers of the investment trust company are appointed by the securities company, come from the securities company and will go back there under our rotation system. So they know where their loyalties lie."

Partly for this reason, the investment performance of the trusts' equity portfolios has generally been poor, with returns well below the rise of the Tokyo New Stock Exchange Index, which is the broadest measure of the Japanese market.

Net purchase and sales figures for the past two years collected by the securities houses show that investment trusts were net sellers of equities in 1983 and January 1984 as the market rose. From February to July, as the market reached its peak (in May) and then fell sharply, they were net buyers. But in August and October, as the market recovered, they again became net sellers.

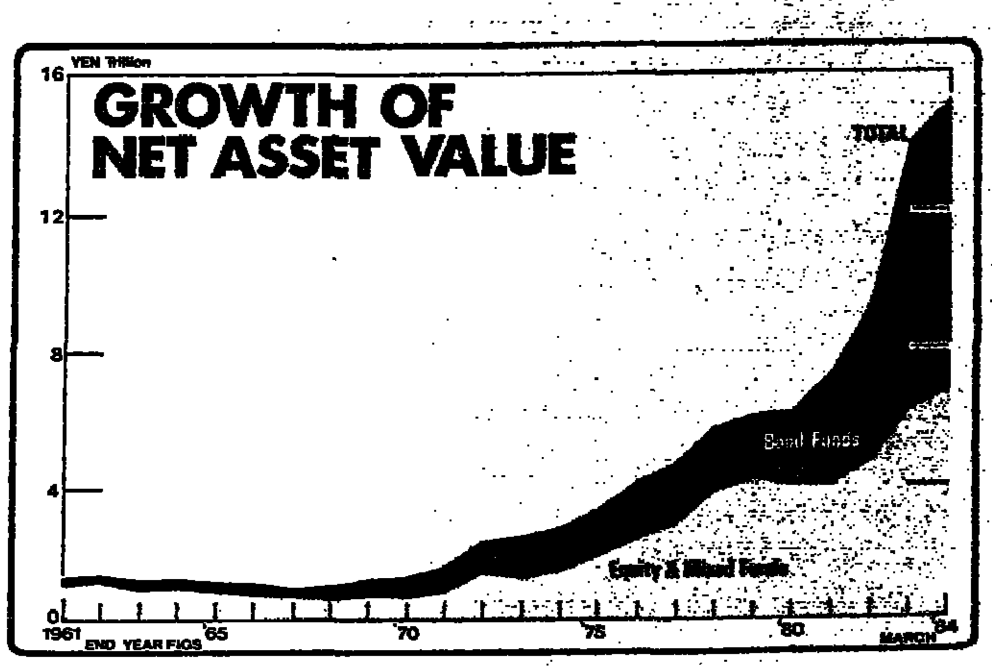
Returns

Over the past year, however, the trusts have been obliged to publish their performance figures on a comparable basis through the Investment Trusts Association. The greater attention given by companies to training fund managers and making use of equity research has started to show.

The equity portfolios of Nikko, the largest investment trust equity manager, have, on average, matched over the past three years returns on the Nikkei Dow Jones index—which are less than those on the broader-based Tokyo New Stock Exchange Index. Returns on the equity portfolio of Nomura, the largest general investment trust managers, have remained below the index — but only slightly, and less dramatically than in the past.

In the future it may no longer be possible as it has been for the past 35 years to conceal poor relative performance behind the spectacular profits achievable in almost every section of the stock market.

An advert for the Venus Ladies Fund, offering the prospect of "unconditional happiness." The fund will invest in cosmetics, fashions and "new life-style" industries



Safety and income yields dominate decisions

Investment Management

CLIVE WOLMAN

FOR THE last three years, the Japanese have been saving more money than any other nation, more even than the Americans whose national income is three times as great.

Their massive pool of financial assets, now worth Y600 trillion (million million) ($2.5 trillion) or twice the Japanese gross national products, is being eyed jealously by investment managers on both sides of the Atlantic.

For the last 35 years, the Japanese saver whose money has been professionally managed through pension funds, life insurace companies or investment trusts, has missed out on nearly all the spectacular stock market returns—and has suffered artificially low interest rates on his deposits.

Japanese industrial companies, too, after years of being heavily borrowed and highly geared, are now accumulating large cash reserves and becoming increasingly conscious of the returns that money should be earning.

The process of opening up the investment management business to foreigners dates back only to June, 1983, when the Morgan Guaranty Trust Company of the U.S. submitted a joint application with Nomura Securities to set up a trust company to manage pensions.

The Ministry of Finance dithered, the other three leading Japanese securities firms also found U.S. banks with whom to submit similar joint aplications and Mr Donald Regan, the then U.S. Treasury Secretary, complained during the U.S.-Japan liberalisation talks last spring.

Alliances

In May, the Japanese Government conceded the principle and since suggested that eight foreign banks would be allowed in to manage penstoo funds. Their 25 per cent annual rate of growth has made them the most attractive target for investment managers.

These moves have created a wave of alliances between Japanese financial institutions and foreign investment managers who are wary about attempting to break into the Japanese market alone. Most of the alliances have yet to be given such substance, with the possible exception of that between the Yasuda Trust and Banking Company and the Hong Kong fund managers, Jardine Fleming.

Many foreign managers are sceptical about the willingness of the Ministry of Finance to let foreigners seize any more than a token share of the market before the Japanese have developed sufficient fund management skills to compete. But in some areas events have moved beyond the ministry's control.

For the investment advisory business in Japan is almost completely unregulated. A few well-publicised collapses of advisory firms and the loss of their clinets' money, in particular the demise last year of the Toshi Journal, have prodded the Government into preparing a law to regulate the field.

Meanwhile, however, foreign investment houses have been quick to make use of the legal vacuum. Ask almost any foreign fund manager what his precise role is in Tokyo and you will be told he is acting as an adviser or research analyst for the funds he is associated with. The formal "managers" of the funds have either to be Japanese companies or are based offshore.

Nevertheless, even with Ministry of Finance permission or acquiesence, and a link-up with an influential Japanese institutioal Japanese institution, foreigners are still likely to find some parts of the market impenetrable This is because of the of relationships linking Japanese companies with financial instiutions.

According to Mr Minoru Takada, international finance manager of Asahi Chemical Industry Company, the choice of which managers should be appointed for the $100m pension fund is highly constrained. The company actually uses Sumitomo Trust and Bank and a life company.

"It is difficult to change a manager because of the many relationships," he says. "A trust bank which manages a pension fund for a company will also give it loans and haxe a shareholding in the company."

Mr Shoji Oshima, general manager of the Tokyo branch of London stockbrokers Vickers da Costa, says: "Industrial corporations have been reliant on the banking system for so long that they do not want to sever their relationship. The banks are their last resort. They do not want to be coldly treated when money is tight."

Companies have more freedom when investing their corporte cash reserves rather than pension funds. Large industrial companies usually have substantial overseas sales. They are often more open to foreign approaches to investment management than the well-protected seven trust banks, one city bank and 21 life insurance companies that alone have the right at present to manage pension funds.

One such company is Olympus Optical, which has about $180m in corporate cash reserves. Finance manager Mr Ken Fujii says they have been searching for a foreign investment manager to manage their overseas bond portfolio which is needed to match the company's overseas liabilities.

His difficulties in using Japanese staff indicate some of the underlying reasons for the poor performance of Japanese fund managers to date, which has much to do with the employment practices of Japanese companies.

Training

"I have very few people who speak English," he says, "and we have to rotate personnel from one department to another every three to five years. We train someone for three years but then he leaves. So it is difficult to produce any specialist fund managers."

The Japanese life-time employment system and the carefully nurtured commitment of the employee to his company rather than to any specialised profession explains part of the difficulty in training investment managers. But Mr Atsuto Sawakami, an investment analyst and Japanese representative of the Swiss bank, Pictet and Co, believes it goes beyond this.

"Portfolio managers do not get any more for being good." he says. "There are no incentives for the individual in this system, so everyone plays safe. In manufacturing all improvements are made on a team basis. But portfolio management is a matter of individual intuition."

Many Japanese banks and insurance companies are reluctant to delegate investment decisions from a committee to the individual fund manager—and the fund manager in turn is reluctant to go out on a limb.

Decision-making by committee and frequent holding of equity stakes in other companies for non-investment reasons (perhaps to encourage commercial ties) means that the turnover of equity portfolios by institutions is very low. For example, in 1983, insurance companies owned 16 per cent of all listed Japanese stocks but accounted for only 0.9 per cent of turnover.

These two factors have also led investment managers to shun a heavy commitment to equity investment. Most pension funds have only 6 to 10 per cent of their assets invested in equities and life insurance companies about 16 per cent, although the government permits 30 per cent. Similarly, the institutions invest only 6 to 7 per cent in foreign securties although the government permits 10 per cent.

Such aversion to risk investment was widespread among UK insurance companies and pension funds 30 years ago. The method of measuring performance in the UK then, and in Japan today, has encouraged it.

Equities

For the crucial figure in a manager's investment record is his yield. Annual differences in yield between the various trust banks and insurance companies are minute, usually within the 7 to 8 per cent range. Yet they are scrutinised obsessively by clients.

The institutions say that this comparison between the income yields rather than between the total returns (including capital gains) achieved by comparing managers forces them to invest disproportionately in bonds and other high-yielding assets. The yield on Japanese equities has long been tiny, around 1 per cent.

Many of the trust banks and life companies claim that within the tight constraints of their small equity portfolios, their investment performance has been respectable. But they have so far failed to publish any detailed performance statistics to back their claims.

One independent actuary who has been given access to some of their performance figures is Mr Stuart Leckitt, of Wyatt International pension consultants in Hong Kong. A U.S. multinational in Japan had insisted that he see the records of two trust banks and two life companies over three years before awarding its pension fund management contract. Mr Leckitt found that all four equity portfolios performed less well than the stock market index over that period.

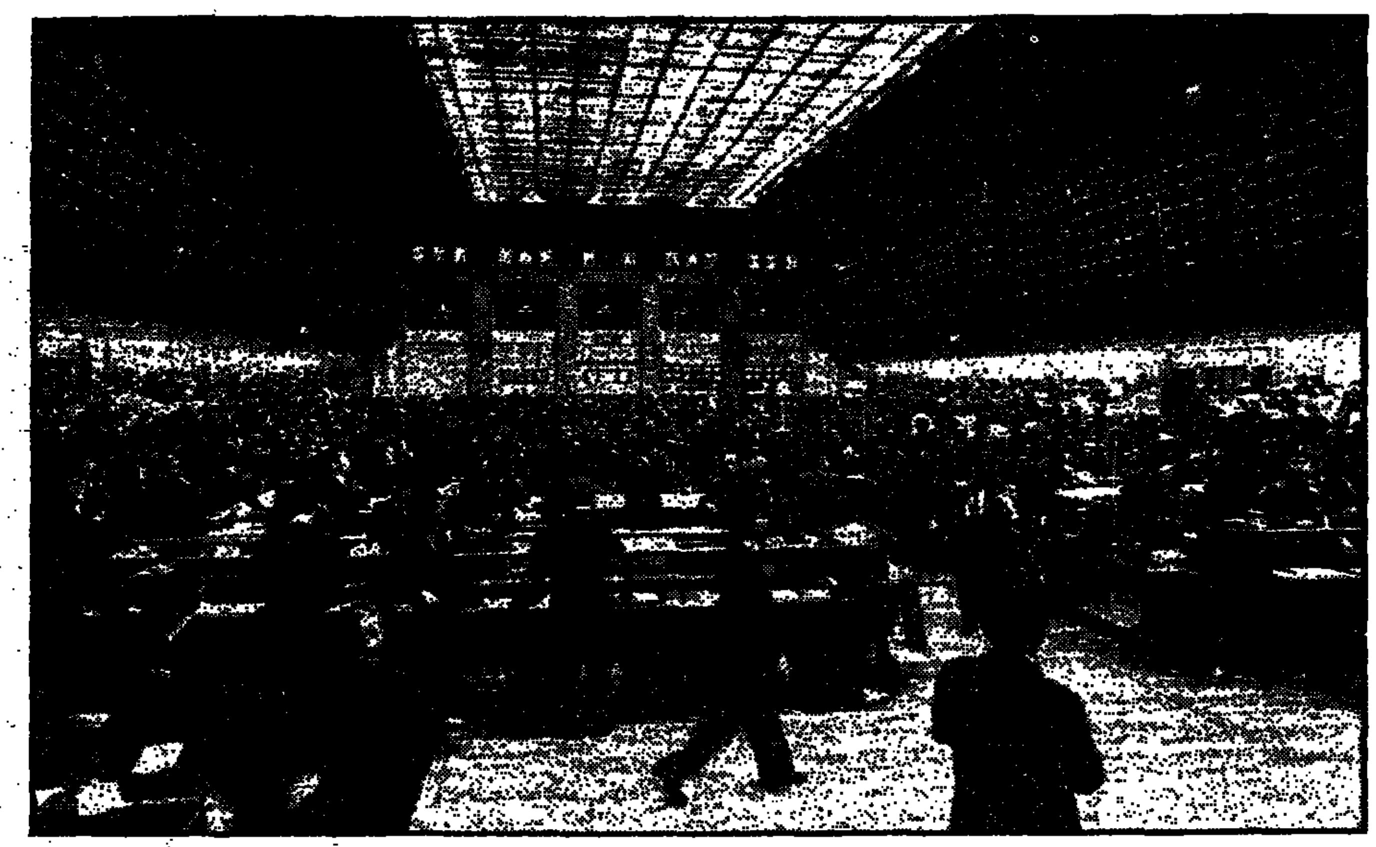
Life insurance companies are normally obliged to put their capital gains into reserves after the annual consultations between their actuaries and the Ministry of Financ: which fixes the dividends for their policy-holders.

However, last October, for the first time, life companies were permitted to invest 3 per cent of their assets in "tokkin" or "designated money funds."

These are allowed to trade actively in equities and to distribute their capital gains as dividends. Their high turnover has already made them a force on the stock market.

But it would be wrong to assume the obstacles to training successful Japanese fund managers are insurmountable. Fidelity International has trained an all-Japanese team over the last 15 years which has achieved the best investment performance of all UK unit trusts invested in Japan.

As part of their partnership agreements with foreign fund managers, the Japanese companies are asking the foreigners to train some of their young and bright employees in portfolio investment techniques. If the experience of the last 120 years in most other activities is anything to go by, the Japanese will not require long to catch up.



The crowded First Section trading floor of the old Tokyo Stock Exchange

Computers transform the work of market-makers

Stock market

CLIVE WOLMAN

FRUSTRATED foreigners in Tokyo frequently contrast the efficiency and sophistication of Japanese industry with the supposed primitiveness of its financial system.

As far as the Tokyo Stock Exchange is concerned however, over the next few months that contrast will have to be re-formulated.

With the introduction of a computerised trade-matching system to the First Section of the market, expected in May, the most striking contrast will be between the way in which financial decisions are made and the efficiency with which they are executed.

The Stock Exchange's Computer-assisted Order Routing and Executive System (CORES) will become the world's largest computerised stock market trade-matching system when it is extended to 750 of the First Section stocks.

CORES has already transformed the work of the market-makers on the Second Section since its introduction three years ago. All 430 stocks listed on the Second Section are now traded through computer terminals in the basement of the old market building.

Face-to-face trading has disappeared. In contrast to the scurrying to and forth, the frenzied hand signals and the jostling and shouting around the most active trading posts on the vast trading floor of the First Section above, the atmosphere in the basement is eerie. Only the murmur of discreet conversations and the bleeps of computers break the silence.

Human

The hurly-burly of face-to-face trading will not vanish from Tokyo, however. CORES will not be extended to the 250 most-actively traded stocks, which account for about 80 per cent of turnover. They will continue to be traded in the traditional manner on the floor of the new market building to be opened in May. However, in 1986, there will be a further extension of CORES to some of the most actively traded stocks whose price fluctuations tend to be small, at least for an experimental period.

But Stock Exchange officials say there are no plans to abolish all face-to-face trading. "The human aspect has an important impact on price formation," said one. "When complete computerisation has been tried (in Cincinnati, U.S.), it was not successful."

CORES was introduced for Second Section stocks out of necessity rather than principle. Severe lack of floor space was anticipated during the period of reconstruction of the market building. The system carries out the function of matching "buy" and "sell" orders made by the regular stock-broking members of the Exchange. They usually act on the instructions of outside investors but sometimes buy and sell on their own account.

Frenzied hand-signal trading will be phased out in the new Stock Exchange, except for the most active stocks, as computers take over

The "Saitori" members, who act as trade-matchers on the main trading floor, fulfill a more limited role downstairs by operating the central processing unit of CORES to allow the matching of trades within a narrow price range.

Constant surveillance of the trading by Exchange staff members is facilitated by CORES which also collects and collates a wide range of statistical data on trading conditions. Information on individual stock turnover and on which brokers are ordering which stocks is readily available, in contrast to the situation on, for example, the London Stock Exchange.

A further important refinement will be introduced in 1986 when CORES will be directly connected to the in-house computers of the securities firms on an on-line basis. This will enable, for example, an individual investor in Hokkaido to go into his local Nomura branch office and place an order for stock which will be directly inputted into CORES and executed on the spot.

Expensive

Direct access to CORES is, and will doubtless remain, limited exclusively to the 83 member firms of the Tokyo Stock Exchange.

If the facility proves popular with private investors, who account for over 60 per cent of market turnover (although only 26 per cent of holdings of listed stocks), the price of a seat on the exchange, will rise to well beyond the Y1.64bn which was paid for a seat last month. This, in turn, would make the cost of acquiring a seat for a foreign securities firm, without a strong Japanese retail base, prohibitively expensive, despite the growing interest among U.S. securities houses.

The Big Four Japanese securities firms, Nomura, Nikko, Daiwa and Yamaichi, have already been making use of computerised services to improve telephone links with their private clients, who account for 60 per cent of total turnover.

The "Securities Joint Anser" system, introduced in August, allows investors to make telephone enquiries and orders related to their bond and investmnet trust portfolios which are handled by computer.

In September, Nikko Securities went one stage further by introducing a system to allow its clients to purchase or sell any listed stock automatically over the telephone. Clients may also request reference material and market information. The service is similar to, but has the edge over, the Prestel service launched last year in London by stockbrokers Hoare Govett.

These technological advances place the Tokyo Stock Exchange, which accounts for about 85 per cent of Japanese stock turnover, and its member firms ahead of nearly all their overseas counterparts in the sophistication of the dealing services they offer to small investors.

Despite Japanese claims of a raising of standards, events over the last year have, say foreign investors, reinforced their criticisms of the stock market. They claim it is poorly supervised, frequently manipulated at the expense of the small investors and fails to carry out the classic role of a securities market, to ensure that capital is directed to the most profitable purposes and into the hands of the most efficient managers.

One widely circulated tale has been how Nomura in June and July made extravagant profits forecasts for the car manufacturer Honda, and followed this us with a big sales promotion for its shares which boosted the price by a third and generated fat commissions. Then the Nomura analyst knocked the price for six with a revised, and much lower, forecast. The essentials of the account are commonplace, particularly a times when companies wish to raise new capital and the securities firms act as underwriters. Similar price movements, for example, occurred when Hitachi convertible bonds were issued last spring. But for once the details were fully documented in a financial newsletter.

Foreign investment managers also recount the sudden and co-ordinated rise in bank shares in the first three months of last year. To some extent, their complaints can be regarded as sour grapes as nearly all failed to buy any bank shares before the rise. But the case reveals much about the workings of the Japanese stock market.

For years, Japanese bank shares had barely moved in price. Many banks, particularly the city banks, had their share price pegged at around Y500. Most brokers, on the instructions of the banks, would turn away investors wishing to purchase any more than a nominal amount of stock. Sales of stock could be effected only with the agreement of the bank.

Competition

But in January, the banks' share prices started to rise steeply—and shares in the most profitable and efficient banks rose the most. Sumitomo Bank shares, for example, rose from Y500 to a peak of Y1,260 in early March. It became clear that, with liberalisation at the gates and the threat of outside competition, the banks would need to raise large tranches of capital to invest in new technology and an expansion of their services.

Thus it made sense for the banks to let share prices rise to their market clearing levels so as to be able to raise equity capital on more favourable terms.

There was, however, one further twist. On March 30, the financial year-end, when the value of stock holdings are recorded, the city banks arranged fo rtheir share prices to be manipulated up or down so that all would stand on that day within a narrow price range of Y1,000 to Y1,050 and no bank would lose face.

Needless to say, the revaluing of the bank shares had nothing to do with any change in fundamentals. In fact, the banks' first-half results, announced in November, were disappointing.

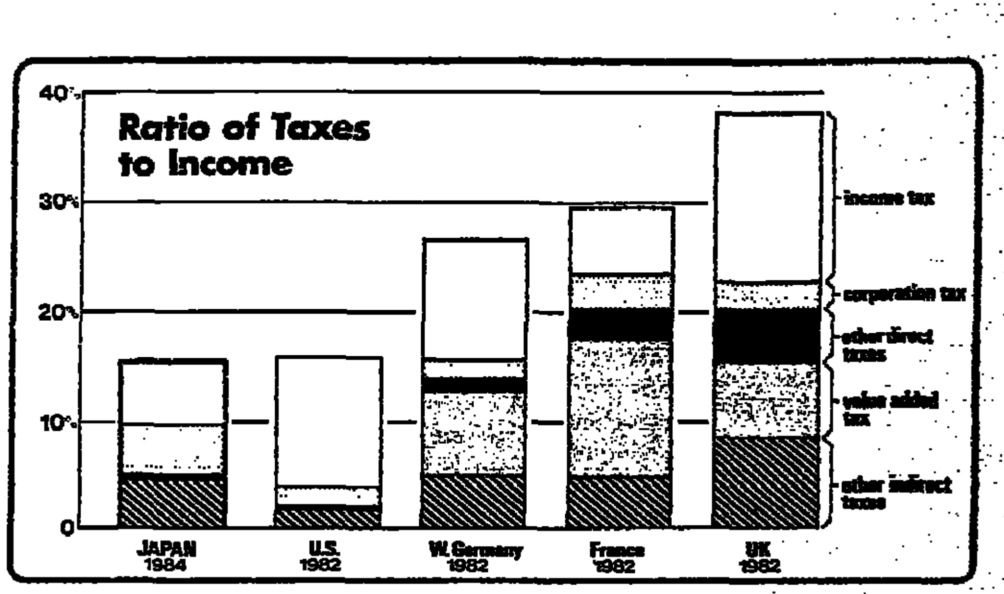
The investment research institutes of the securities firms, that played an essential role in pegging the prices, produced hardly any research material on the banks before last February. Since then they have set a few analysts to work on the sector although their offerings to date have not always been illuminating. A Daiwa paper on the five major city banks, issued in November, noted that "although many investors are wondering why bank stocks have moved up suddenly . . . no one knows the real reasons."

The reputation of this model for advanced economies is suffering

Wily priests strain the system

Taxation

CLIVE WOLMAN



FROM THE tactics of wily Buddhist priests to the discovery of exotic tax havens and routes through them by Japanese companies, the Japanese tax system has rectnly been suffering a loss of reputation as a model for advanced economies.

Strains on the system have come at a time of mounting demands on it from the Government to raise more revenue.

Western economists, stricken by disillusionment with the ability of governments to use taxation to achieve economic or social policy goals, have often presented the Japanese system as an ideal.

Japanese governments have never envisaged a role for their tax system beyond simply financing expenditure — and relatively modest expenditure at that. In the absence of a labyrinth of special reliefs and exemptions, rules have remained simple—and difficult to manipulate. Compliance from taxpayers, individual and corporate, has been high, probably higher than in any other liberal democracy.

Pressures

Officials in the Ministry of Finance are anxious to affirm their opposition to using taxation either as a tool of demand management or to achieve micro-economic policy aims. They say, they have many more direct methods of effecting policy, particularly through controls over the financial system.

One official in the Tax Bureau's research division at the Ministry of Finance says: "We have strong pressures from groups who want special treatments. But we try to fight these as the neutrality of the tax effect is very important.

"The pressures are less than in the West. People accept that it is the Government's business to raise taxes."

Nevertheless, the Government is facing increasing difficulties preserving fiscal neutrality and simplicity because of the demands of its Budget. As late as 1970, national government expenditure accounted for only 10.9 per cent of gross national product, of which 9.7 per cent was covered by tax revenue. But over the last 10 years, following the impact of the first oil crisis, the proportion of public expenditure has risen sharply while the proportion of tax revenue has not.

In fiscal 1983, national government expenditure was 18.2 per cent of GNP while tax revenue was 11.4 per cent. With an accelerating burden of debt—servicing costs will be the largest item of expenditure in fiscal 1985—the Government has been under strong pressure to raise taxes and cut expenditure in the Budget.

Most revenue - raising measures proposed by the Ministry of Finance could not be pushed through the Cabinet last March. The only changes adopted were a four-year deferral in refunding of withholding tax suffered by loss-making corporations; an increase in the tax rate on non-profit foundations such as religious bodies and co-operatives and the phasing out of an exemption from the enterprise tax granted to *the mass media*. Income will also be imposed on capital gains from investment in zero-coupon bonds.

The Government has postponed, at least until 1986, any new consumption taxes. A general consumption tax has long been supported by the influential Tax System Research Council and, although ruled out in the immediate future by Prime Minister Hasuhiro Nakasone, is believed to be supported by Mr Noboru Takeshita, the Finance Minister.

Proposals to tax the interest on the Y245 trillion ($1,000bn) of small savings currently exempt have also been shelved.

At the same time, there is strong pressure on the Government to cut other tax rates. Last year the top rate of national income tax was cut by 5 per cent, but the top marginal rate of local and national tax combined remains as high as 88 per cent on incomes over Y80m ($320,000). Since 1978, the adjustment of tax brackets has lagged behind inflation.

More sustained has been criticism spearheaded by the Federation of Economic Organisations (Keidanren) of the corporate tax burden. Last spring Keidanren, which primarily represents large private sector employers and usually supports the Government, launched a campaign to increase tax reliefs on corporations.

Relief

It claims that the effective tax rate on Japanese companies, of 52 to 53 per cent, is higher than in almost any American or West European country. Mr Yoshimasa Kubouchi, deputy director of Keidanren's financial affairs department, calculates that after allowing for relief on investment, stock and accelerated depreciation, the effective tax rate in the U.S. is 32 per cent, in West Germany 50 per cent and in the UK (in 1982) 18 per cent.

The contrast with Japan is exaggerated because of the failure to take into account different inflation rates. The Government admits it is dependent on corporation tax and generous with tax reliefs and highly specific depreciation rules—it has more than 300 classifications for depreciation including 17 years for a lift and five for a typewriter.

Mr Kubouchi says the high rates are deterring capital investment by industry, which has been one of Japan's greatest strengths over the last 30 years.

"Our capital equipment is getting older," he says. "In steel and heavy industry, it is already older than in the U.S." Artificially low interest rates are now of much less benefit, he says, as so many companies have achieved positive net financial balances.

Keidanren, while failing to win new reliefs, has at least stopped tax rates from rising further and blocked a proposed new tax on office equipment.

Several Japanese companies have responded to high rates by aggressive tax planning, particularly in their international operations.

According to Mr Thomas Rasmussen, director of international tax services in Japan at accountants Deloitte Haskins and Sells: "Japanese companies used to be interested only in substantial economic transactions. But tax planning has increased extraordinarily in the *last few years*."

Other international accountants agree that there has been a strong recent upsurge in demand for tax consultancy services which has given them a foothold in the Japanese domestic market for the first time.

"Japanese companies used to believe that tax was something beyond their control," says Mr Robert Jennings, international tax manager of Coopers & Lybrand in Tokyo. "If the tax auditors came in and increased their declared profits, the financial controller would lose face.

"They were also afraid to consult anyone outside the company on tax-saving for fear they would be humiliated if a scheme was discussed in public."

But the realisation that they have been paying excessive tax compared with overseas competitors has changed the attitude of Japanese companies.

It is not clear how much of a tax loss to the Government this represents. Legislation against tax havens on U.S. lines was introduced in 1978 and this year the National Tax Agency publicised its regular meetings with tax officials in other Pacific countries such as Australia, the U.S. and Canada. It also publicised in November the imposition of an extra Y2.5bn of tax on the Mitsubishi Corporation, which had made excessive deductions for foreign tax.

A survey by the Tax Agency of 4,600 companies showed that 95 per cent failed to report their income adequately in the last tax year. A survey of small businesses and self-employed published in July confirmed a similar trend towards tax evasion. The worst groups included doctors running independent hospitals, pinball shop operators, moneylenders and Buddhist priests. They were discovered to be failing to declare donations temple visitors make for chanting sutras and assigning Buddhist names to be carried into the next world by relatives.

Compromise

Tax officials have long been willing to use strong - arm tactics, in combating such non-compliance, often descending on offices and ordering everyone to hand over papers. In disputes over tax assessments, there are few legal precedents to rely on, and the taxpayer is forced to negotiate a compromise. In tax as in all disputes the Japanese are reluctant to risk the public humiliation of fighting and possibly losing a court case.

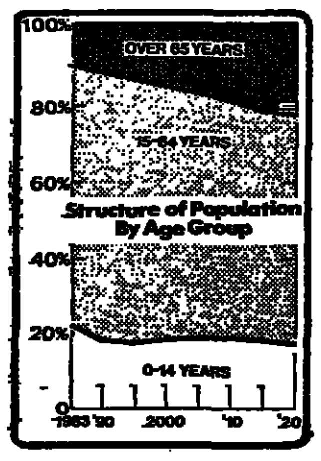
The authorities have a further weapon—publication each May of lists of taxpayers in each region paying more than Y10m in tax. As Mr Norihisa Kamiuo, partner of accountants Arthur Young in Tokyo, says: "It is a great honour to be on the list, *particularly if you own a small* company—although visits from salesmen can be annoying."

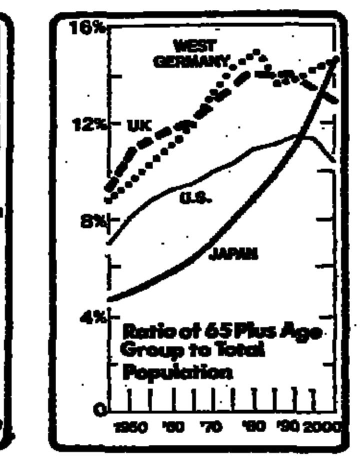
Whether such devices are sufficient to prevent the emergence in Japan of a black economy and a tax avoidance industry of Western dimensions remains to be seen. But if they fail, the pressure for new taxes will become irresistible.

The problems of ageing too fast

Pension Funds

CLIVE WOLMAN





THE JAPANESE population is growing older faster than any other industrialised nation. That, more than economic change, is the impetus behind the world's fastest growing pool of savings.

Explosive growth in the assets of pension funds over the next 10 years and the even faster growth in their liabilities can be expected to provide as much pressure for change from within the financial system as the U.S. can from outside.

Without changes in the management of pension funds, many Japanese companies fear their obligations to provide for their retired workforce will be a constant drain on profits.

Private sector pension plans were slow to get started, even after a package of tax incentives on the U.S. and UK model were introduced in 1962 to encourage the funding of employee pensions by companies. By March 1966, only 8,150 "unqualified" private plans were in operation, and public pension expenditure was only 0.3 per cent of gross national product (the UK figure was 4.4 per cent).

Striking

But companies have started making up for lost time. The number of plans passed 62,000 in 1982 and the value of pension fund asset has been growing at 25 per cent a year. Private pension fund assets, which stood at Y15 trillion ($60bn) towards the end of last year, are expected to quadruple by 1992.

Equally striking is that most of the increase has come from contributions and not, in contrast to the UK, investment performance. Poor investment returns are the greatest weakness of the system.

Even the present scale of contributions will not be sufficient to stave off a solvency crisis by early next century, demographers and actuaries say. The threatened insolvency of the Japanese National Railways pension programme, which had to be rescued in 1983, highlighted the problem.

The culprit is Japan's baby boom of 1947 to 1949, after the massive wartime loss of life —and the high life expectancy of those babies and their successors.

In 1966, people over 65 made up only 6.5 per cent of the population, and even today Japan's elderly form a smaller proportion of the population than those of any main economic competitor. In 30 years, the proportion of over-65s will be 18 per cent greater than in any other major economy.

In stark economic terms, 693 people aged from 15 to 64 were available in 1983 to support every 100 over-65s. By 2015, only 291 such people will be available.

The problem is compounded by the declining number of elderly people able, and willing, to live with their children—down from 82 per cent in 1960 to 74 per cent in 1973. The proportion of those below retirement age who expect to be supported in old age by their children has declined even more rapidly, Government surveys indicate.

There are about 13m workers covered by at least one of the two types of private pension scheme: the qualified pension plan and the contracted-out pension scheme. Differences between the two schemes are small. The two cover slightly under half the workers in companies with five or more employees.

It is often the smaller and medium-sized enterprises that offer funded schemes. Mr Kyoshi Murakami, a director of Nippon Dantai Life Insurance company, says smaller companies use the benefits to attract employees.

Larger employers often cannot afford a funded pension plan, as they are already suffering the burden of meeting large, unfunded lump-sum benefits for retiring employees—the traditional end-of-service reward.

Alongside the private pension plans, all Japanese citizens are covered by some form of public pension. There are three categories: one for private sector employees, one for the self-employed and one for the employees of the government and public corporations.

Last year the national Diet (parliament) proposed amendments to integrate the first two types by 1986.

Almost 60m people are insured under one of these programmes and the value of the public pension funds is over Y65 trillion ($260bn). Contributions come directly from employers or the self-employed and from deductions at source from employees' pay.

Lump sum

For higher-paid executives, the public pension seems a small sum for retirement. If a company provides an average lump-sum payment on retirement of only 2½ times final salary, the executive will suffer a sharp drop in his standard of living unless he has accumulated large private savings.

Those in private funded pension plans can also opt in most circumstances to take a lump sum on retirement instead of an annuity. Most employees choose to do so, not least because of partial tax exemptions. Either way, the benefits will typically be less than those in the UK. At best, the employee might expect to receive 40 to 45 per cent of final salary after 40 years' service.

Companies which rely on a pay-as-you-go system to make lump-sum payments are highly vulnerable. A foreign bank in Tokyo found one year's profit converted into a loss because it wrongly anticipated the number of employees retiring. Payments into a reserve fund are widely used, however, and, within limits, can be offset against corporation tax.

But companies with a funded pension scheme also face solvency threats. Mr Murakami estimates that most company schemes are well under 100 per cent funded. And if a company tries to make up the shortfall too quickly, for example, in an exceptionally profitable trading year, it will not be granted a full offset against corporation tax.

These difficulties have led to growing resentment towards Government restrictions on the investment management of private pension funds which, employers claim, have resulted in poor investment returns, averaging only 7 to 8 per cent per year.

Complaints

The only companies allowed to manage pensions funds are the seven trust banks, one city bank and the life insurance companies, all of whom follow a conservative investment strategy. Their commitment to equities and overseas securities is well below even the restrictive limits imposed by the ministry.

In May 1983 the Federation of Employee Pension Funds submitted a list of complaints and demands to the Government. They objected to high fees of between 0.6 and 1.8 per cent of assets under management, lack of adequate disclosure and performance measurement, and lack of competition.

Internal pressures such as these as much as pressure from the U.S. led the Government to agree last May to allow foreign banks to enter the pension fund management market as part of its liberalisation package. Ministry of Finance officials say they will admit in the first instance eight foreign banks, probably equally divided between the U.S. and Europe.

But the difficulties of running an entire pension fund management operation, including the requisite actuarial, administrative and payment services, may persuade most foreign investment houses to enter the market not directly but through a link with a Japanese trust bank, insurance company or securities company.